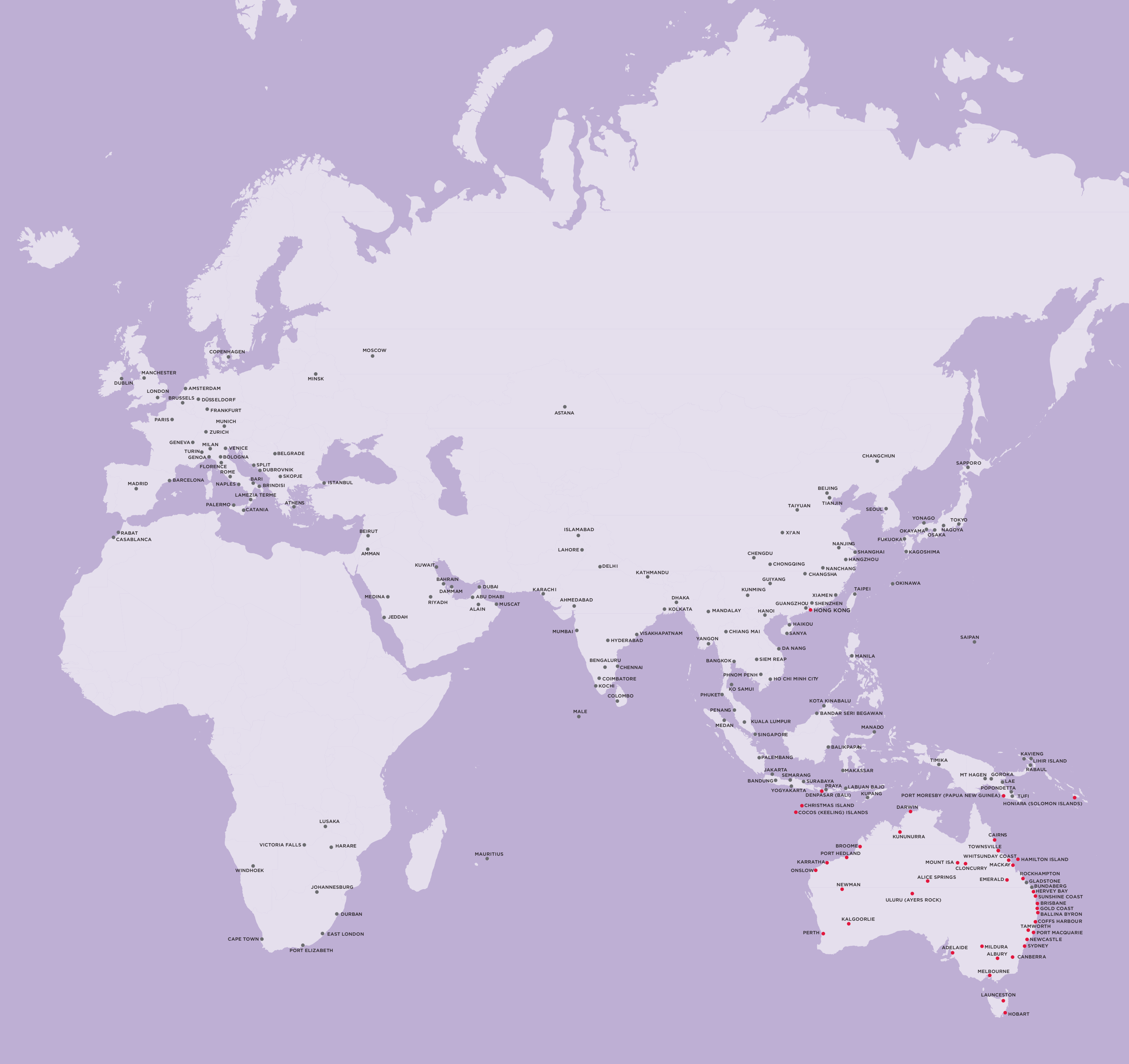
Virgin australia group

ANNUAL REPORT 2019



VIRGIN AUSTRALIA GROUP
ANNUAL REPORT 2019

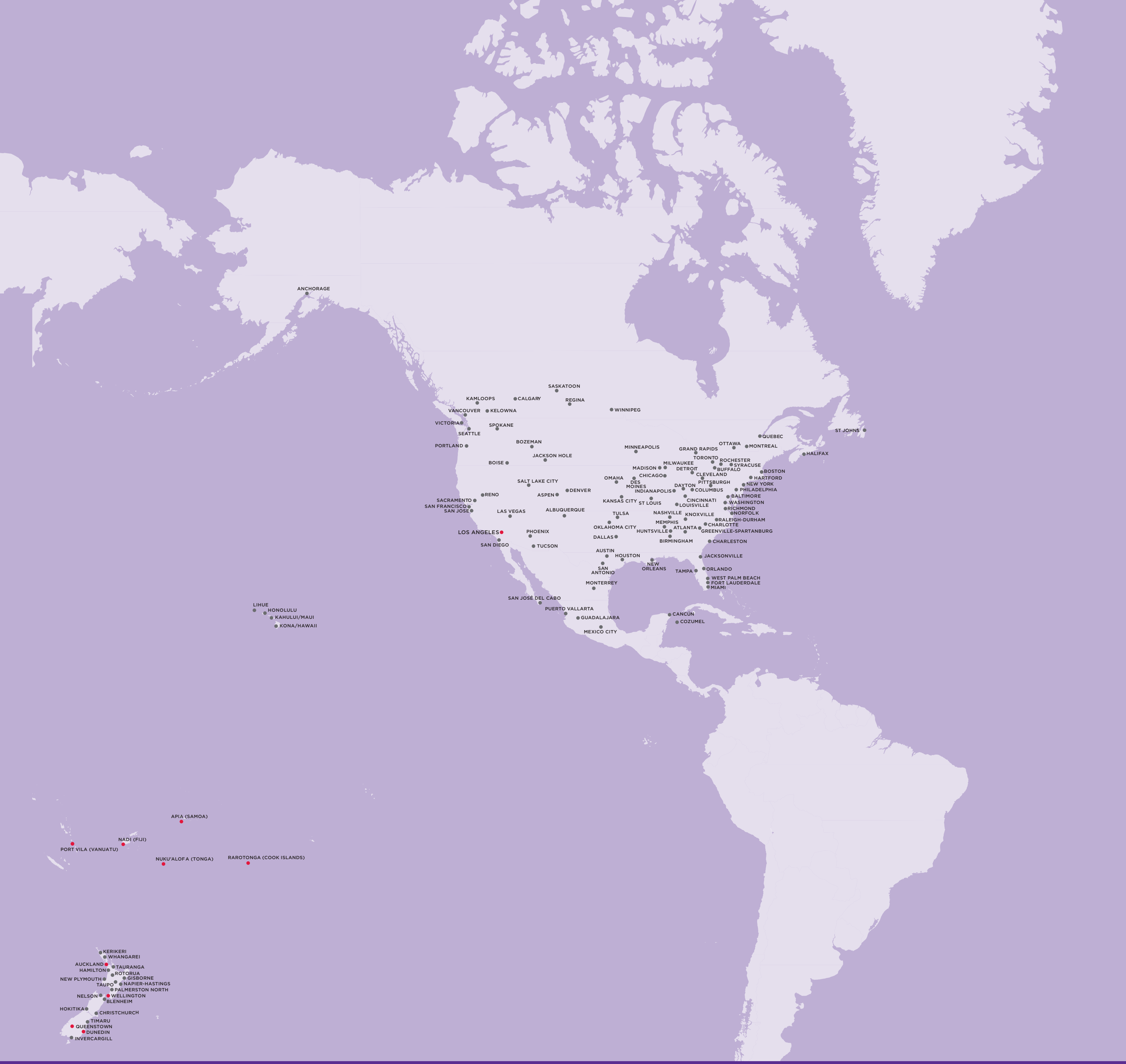
OUR NETWORK

466

DESTINATIONS IN OUR GLOBAL VIRTUAL NETWORK

ROUTES LAUNCHED IN THE 2019 FINANCIAL YEAR:

- Perth-Hobart
- Perth-Gold Coast (seasonal)
- Sydney-Hong Kong
- Sydney-Wellington
- Melbourne-Queenstown
- Newcastle-Auckland (seasonal)
- Darwin-Denpasar (seasonal)


ANCHORAGE
SASKATOON
KAMLOOPS
CALGARY
REGINA
VANCOUVER
KELOWNA
WINNIPEG
VICTORIA
SPOKANE
SEATTLE
PORTLAND
BOZEMAN
JACKSON HOLE
BOISE
SALT LAKE CITY
RENO
ASPEN
DENVER
SACRAMENTO
SAN FRANCISCO
SAN JOSE
LAS VEGAS
ALBUQUERQUE
LOS ANGELES
SAN DIEGO
PHOENIX
TUCSON
ST JOHNS
QUEBEC
OTTAWA
MONTREAL
HALIFAX
MINNEAPOLIS
GRAND RAPIDS
TORONTO
ROCHESTER
SYRACUSE
MILWAUKEE
MADISON
DETROIT
BUFFALO
BOSTON
CHICAGO
CLEVELAND
HARTFORD
OMAHA
DES MOINES
PITTSBURGH
DAYTON
NEW YORK
INDIANAPOLIS
COLUMBUS
PHILADELPHIA
BALTIMORE
KANSAS CITY
ST LOUIS
CINCINNATI
LOUISVILLE
WASHINGTON
RICHMOND
NORFOLK
TULSA
NASHVILLE
KNOXVILLE
RALEIGH-DURHAM
MEMPHIS
CHARLOTTE
OKLAHOMA CITY
HUNTSVILLE
ATLANTA
GREENVILLE-SPARTANBURG
DALLAS
BIRMINGHAM
CHARLESTON
AUSTIN
HOUSTON
JACKSONVILLE
NEW ORLEANS
SAN ANTONIO
TAMPA
ORLANDO
WEST PALM BEACH
FORT LAUDERDALE
MIAMI
MONTERREY
SAN JOSÉ DEL CABO
PUERTO VALLARTA
GUADALAJARA
MEXICO CITY
CANCÚN
COZUMEL
LIHUE
HONOLULU
KAHULUI/MAUI
KONA/HAWAII
APIA (SAMOA)
NADI (FIJI)
PORT VILA (VANUATU)
NUKU'ALOFA (TONGA)
RAROTONGA (COOK ISLANDS)
KERIKERI
WHANGAREI
AUCKLAND
TAURANGA
HAMILTON
ROTORUA
NEW PLYMOUTH
GISBORNE
TAUPO
NAPIER-HASTINGS
PALMERSTON NORTH
NELSON
WELLINGTON
BLENHEIM
HOKITIKA
CHRISTCHURCH
TIMARU
QUEENSTOWN
DUNEDIN
INVERCARGILL

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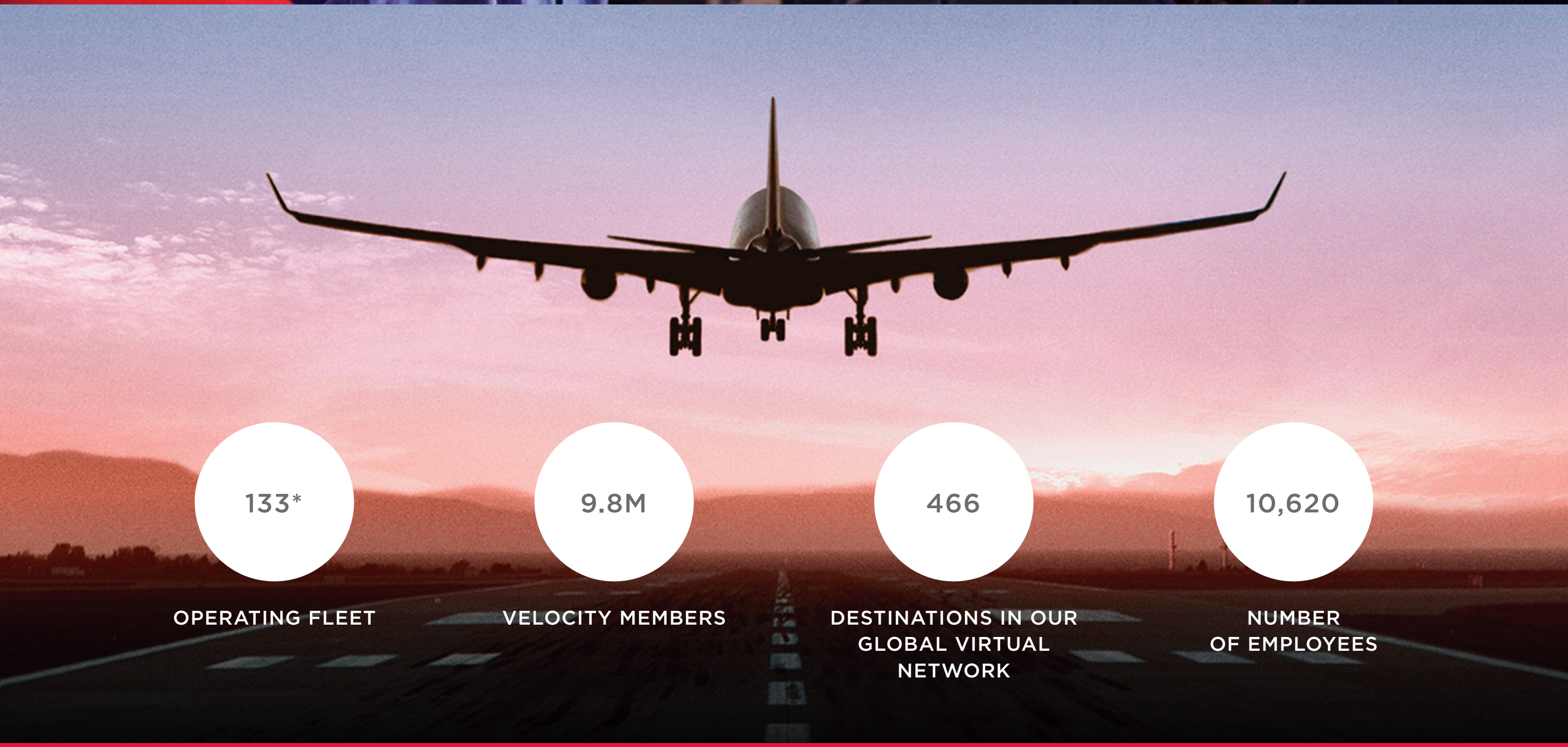


133*	9.8M	466	10,620
OPERATING FLEET	VELOCITY MEMBERS	DESTINATIONS IN OUR GLOBAL VIRTUAL NETWORK	NUMBER OF EMPLOYEES

KEY HIGHLIGHTS

- Aircraft operating in our sustainable aviation fuels trial flew more than one million kilometres to a range of domestic and international destinations
- We exceeded our target of an equal intake of males and females for our 2018 Pilot Cadetship program
- We launched new routes, including Sydney-Hong Kong, Sydney-Wellington, Melbourne-Queenstown and Perth-Hobart
- Out of all major airlines in Australia, Virgin Australia Airlines was the most on time airline for departures and the airline least likely to cancel a flight
- We launched an international lounge network in Australia and New Zealand
- We hosted the world's first dedicated meditation flight with Sir Richard Branson
- We celebrated 10 years of flying to Los Angeles

* Operating fleet excludes aircraft that have been removed from operational service. Statistics have been rounded. Passengers Carried and Kilometres Flown include 100% of Tigerair Australia statistics from 1 November 2014.

AWARDS

- Virgin Australia was awarded World's Best Cabin Crew for 2019 by AirlineRatings.com, and named number five in the Top Ten airline rankings as part of its Airline Excellence Awards
- Virgin Australia was awarded a five star rating by the Airline Passenger Experience Association (APEX) for the second consecutive year. The rating puts Virgin Australia in the top nine per cent of airlines worldwide to be given a five star rating through direct passenger rankings and feedback
- Velocity Frequent Flyer Program won Best Redemption Ability in the Middle East and Asia/ Oceania region airline category at the Freddie Awards for the seventh year in a row

CHAIRMAN'S REPORT

The 2019 financial year was a challenging period for the Virgin Australia Group and the aviation industry more broadly. Subdued economic conditions, higher fuel prices and a weaker Australian dollar all had an impact on the Group's full year performance.

We were not the only company affected by these conditions. However, in this environment it is more important than ever for the Board and management to focus on the financial resilience of our business and the factors we can control.

The Group reported a loss at both the underlying and statutory levels for the full year, which is a disappointing outcome for our shareholders and demonstrates the need for change. While revenue and passenger numbers continued to grow, there is still more work for the Group to do to translate this into earnings. This speaks to a need for greater cost focus within our business.

The Board is confident that changes are underway under the leadership of new Chief Executive Officer and Managing Director, Paul Scurrah, who we welcomed at the end of March 2019 following an extensive global search.

Paul's appointment follows the Group's former CEO John Borghetti stepping down after eight years. I would like to once again thank John for his contribution. He helped reposition our airline across many segments of the aviation market and all travellers today benefit from the strong competition he brought to the local industry.

The focus of Board and management now turns to consolidating the Group's transformation and making important changes to improve our profitability.

Since commencing in the role, Paul and his management team have delivered on a number of immediate priorities including a restructure of the Group's Boeing 737 MAX order and a reduction in capacity in line with subdued market conditions. Most recently, the Group announced a simplified organisational structure and a new Executive Leadership Team who will drive change and identify greater opportunities for the Group's future success.

This comes with challenging decisions including a reduction of the corporate and head office workforce and a review of our fleet, network and capacity. These are difficult decisions for any management team, however are necessary ones for the future growth and sustainability of our business.

A strategic review of the Group remains underway and we look forward to sharing more detail on the long-term positioning and direction of the Group in due course.

As a responsible corporate citizen, the Group is committed to using its role in the community and we work with our partners to make a positive difference in the lives of young Australians dealing with serious illness, hardship and mental health challenges. Virgin Australia is also there in times of crisis, to support communities impacted by floods, cyclones and other natural disasters.

During the year, we helped to celebrate the Starlight Children's Foundation 30th anniversary by operating a special charter flight for Starlight recipients and their families. As Starlight's official Wish granting partner, Virgin Australia has helped to grant more than 1,200 wishes for Starlight since our partnership began and we look forward to working with them moving forward.

The 2019 financial year also saw renewal at the Board level. We welcomed Sir Angus Houston and Judith Swales as Independent Non-Executive Directors following Mark Vaile and Sam Mostyn stepping down. In terms of our major shareholders, we also welcomed Hou Wei as nominee Director and Du Ming as an Alternate Director for the HNA Group, which followed the resignation of Zhang Kui and Luo Jiaqi. Ray Gammell was also appointed as nominee Director for the Etihad Aviation Group following the resignation of Robin Kamark.

I'm pleased to welcome our new directors who all bring a diversity of skills and experience, and I would like to thank those who have stepped down for their passion, exceptional counsel and commitment while serving on our Board.

The Virgin Australia Group remains as focused as ever on delivering a great experience for our customers and providing strong competition across all market segments. A number of changes have been announced to strengthen the financial performance of our business and help deliver profitable growth moving forward.

In addition to the Group's Board and management, there are a number of parties to acknowledge. I would like to thank our major shareholders Etihad Aviation Group, HNA Aviation Group, Nanshan Group, Singapore Airlines Limited and the Virgin Group for their support during the past year. I would also like to thank our other shareholders with smaller holdings for their support of the Group.

I would especially like to recognise the people at the Virgin Australia Group for their effort and commitment to our customers and demonstrating the Group's values every day. Many of them are the face of our business and our success relies on the exceptional guest experience they deliver.

There is important work to do during the 2020 financial year on the financial performance of our business to improve profitability. The Board and management team remain confident that the benefits of the changes announced will begin to be realised this financial year, and I look forward to updating you on our progress.

Yours Sincerely,

ELIZABETH BRYAN
Chairman, Virgin Australia Group

CEO'S REPORT

FINANCIAL PERFORMANCE[1]

There were a number of factors that impacted our results for the 2019 financial year. There were challenging economic conditions that fostered a subdued revenue trading environment in the second half of the financial year. The timing of Easter and the market uncertainty created by the Federal Election in the second half of the financial year impacted the demand for business and leisure travel. There were also rising fuel, operational and capacity costs and a weakening Australian dollar.

The Group delivered the following results:

- Group Revenue of $5.8 billion, an improvement of 7.5 per cent on the prior corresponding period.
- A Group Underlying Loss Before Tax of $71.2 million, compared to an Underlying Profit Before Tax of $64.4 million in the prior financial year, representing a decline of $135.6 million and impacted by fuel and foreign exchange headwinds.
- A Group Statutory Loss After Tax of $315.4 million, impacted by restructure costs of $223.2 million, including a $152.6 million asset impairment of the Tigerair Australia and Virgin Australia International businesses.
- Positive Free Cash Flow of $53.9 million, a decline of $19.2 million on the prior corresponding period and inclusive of $158.8 million in fuel and foreign exchange headwinds.
- The Group's Cash balance increased by $324.5 million to $1.7 billion, largely attributable to the Group's refinancing activities undertaken during the year.
- Financial Leverage of 4.7x, 0.6 higher than the 2018 financial year, impacted by fuel and foreign exchange headwinds and the softer revenue environment in the second half of the financial year.
- Adjusted Net Debt increased by $95.8 million, due in part to adverse foreign exchange movements.

STRATEGIC REVIEW OF THE BUSINESS TO DRIVE CHANGE

Whilst our customer base and revenue continued to grow, our business is not seeing the benefits of this and changes are required to improve our financial performance. If we are to deliver for our customers, our shareholders and our broader team moving forward, we need to better manage our cost base and identify opportunities to strengthen our business.

When I was appointed as CEO and Managing Director, there were a number of key priorities that needed to be addressed to meet these objectives. We restructured the Group's order of Boeing 737 MAX aircraft with Boeing, resulting in a significant deferral of capital expenditure. We responded to the subdued market conditions in the second half of the year and reduced capacity by 1.5 per cent, to reduce costs in a low demand environment. In addition, we are also undertaking a strategic review of the business and a number of initiatives have been announced including:

- a simplified organisational structure establishing Group-wide accountability across all brands, and the appointment of a new Executive Leadership Team.
- an organisational rightsizing program to match the size of our team to the current scale of our business. This will target a reduction of 750 corporate and head office roles during FY20 and aims to reduce our costs by $75 million per annum.
- a review of our fleet, network and capacity to deliver improved aircraft utilisation, capacity to match moderated market conditions, and enhance route profitability.
- a review of all current supplier agreements to renegotiate key contracts including aircraft leases, airports, maintenance and strategic supply agreements, targeting at least $50 million in cost savings per annum.

These changes will be key to building a stronger, more resilient business and ensuring that we can continue to provide strong competition in all markets we operate in. Whilst decisions impacting our people are never easy to make, they have been made in the long-term interests of the Group. These initiatives will be key to reducing the Group's cost base and improving our bottom line. They will also ensure we are better positioned to capture growth opportunities in the future.

SAFETY

The Virgin Australia Group takes an uncompromising approach towards safety – it is at the forefront of everything we do and our number one priority is to ensure the safety of our guests, crew and aircraft at all times.

Throughout the year, the Group has continued its focus on operational safety and on reducing its Lost Time Injury Frequency Rate (LTIFR). We have seen continued improvement across all parts of the Virgin Australia Group. The LTIFR targets at both the Group and airline level were achieved, with results of 0.69 for the airline and 0.70 for the Group, against targets of 1.33 and 1.75 respectively.

SUSTAINABILITY

The Group understands its responsibility to invest in projects that will reduce our impact on the environment. Carbon emissions are the most significant environmental issue in the aviation industry and during the year, we successfully completed a sustainable

During the 2019 financial year, the Virgin Australia Group has focused on building a more resilient business. Being a diversified airline group that competes across all market segments, we have not been immune to the impacts stemming from a challenging economic climate. Whilst the Group delivered a disappointing set of results, it underscores the need for change in our business to improve our financial performance and position our organisation for future success.

aviation fuels trial at Brisbane Airport. Under the trial, aircraft flew more than one million kilometres using a blended mix of the low carbon aviation fuel. This trial tested the supply chain readiness for such fuels in the Australian market and has helped us to move one step closer towards the future use of low carbon fuels in the joint refuelling system of a major airport.

OUR PEOPLE

Our people are the reason our customers come back to fly with us time and time again. It goes without saying that it is the people in our business that set us apart from other airline groups. I would like to thank them for their unwavering commitment to exemplifying the values of our company and for continuing to deliver the unique customer experience that we are renowned for.

PRIORITIES FOR THE 2020 FINANCIAL YEAR

The Group will remain focused on the strategic positioning of our business. If we are to continue to bring strong competition to the Australian aviation market now and into the future, we need to have a long-term focus and identify the opportunities that will deliver for our customers, our shareholders and our team.

The new Executive Leadership Team will be responsible for setting the Group-wide approach for our business. They will also be responsible for driving outcomes that reflect the Group's focus on being the best value airline for our corporate and leisure travellers and making sure our customers remain at the heart of everything that we do.

I would like to thank all shareholders for their ongoing support. I am confident that with the work that is underway in our business, we will be able to deliver long-term benefits and become a more profitable airline group going forward.

PAUL SCURRAH
Chief Executive Officer and Managing Director, Virgin Australia Group

1. For definitions of capitalised terms used in the CEO's Report and further information on the financial performance of the Virgin Australia Group in the 2019 financial year, please refer to the document entitled 'Release FY19 Financial Results' released to the Australian Securities Exchange on 28 August 2019.

Directors' report

The directors present their report on the consolidated entity comprising Virgin Australia Holdings Limited ACN 100 686 226 (VAH or the Company) and the entities it controlled at the end of, or during, the financial year ended 30 June 2019.

Directors

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

Ms Elizabeth Bryan AM (Chairman)
Mr Paul Scurrah (appointed 25 March 2019)
Mr Trevor Bourne
Mr Mark Chellew
Mr Ken Dean
Mr Ray Gammell (appointed Alternate Director 17 July 2018, appointed Director 20 December 2018)
Mr Hou Wei (appointed 28 May 2019)
Air Chief Marshal Sir Angus Houston, AK, AFC (Ret'd) (appointed 12 December 2018)
Mr Lan Xiang
Mr Warwick Negus
Ms Judith Swales (appointed 29 May 2019)
Mr Marvin Tan

Mr Du Ming (Alternate Director, appointed 28 May 2019)
Mr Tan Pee Teck (Alternate Director)
Mr Wu An (Alternate Director)

Mr John Borghetti (ceased 25 March 2019)
Mr Robin Kamark (ceased 20 December 2018)
Ms Samantha Mostyn (ceased 29 May 2019)
The Hon. Mark Vaile AO (ceased 12 December 2018)
Mr Zhang Kui (ceased 28 May 2019)
Mr Luo Jiaqi (Alternate Director) (appointed 17 July 2018, ceased 28 May 2019)

Except where otherwise indicated, each director named above held office for the whole financial year ended 30 June 2019.

Details of directors and alternate directors, their qualifications, experience and special responsibilities

Directors holding office at the date of this report

Ms Elizabeth Bryan AM – BA (Econ.), MA (Econ.), Chairman and Independent Non-Executive Director

Ms Elizabeth Bryan was appointed Company Chairman and to the Board on 20 May 2015. Ms Bryan is Chair of the Nomination Committee.

Ms Bryan is one of Australia's most respected corporate leaders, bringing more than 30 years of leadership experience and strategic and financial expertise to the Board. She has held senior positions in a diverse range of industries including financial services, oil and gas, agriculture, aviation, management consulting and the public sector.

Ms Bryan is also Chairman of Insurance Australia Group.

Ms Bryan has served as Chairman of Caltex Australia Limited and UniSuper Limited as well as a Director of Westpac Banking Corporation and a large number of other Australian public, private and government-owned companies. She also held the position of Chief Executive Officer of Deutsche Asset Management Australia and its predecessor organisation the State Super Investment and Management Corporation for over a decade.

Listed directorships held at the date of this report or during the three year period ending 30 June 2019:

- Director of Westpac Banking Corporation (6 November 2006 to 9 December 2016)
- Chairman of Insurance Australia Group Limited (current, appointed 5 December 2014)

Directors (continued)

Details of directors and alternate directors, their qualifications, experience and special responsibilities (continued)

Mr Paul Scurrah – Managing Director and Chief Executive Officer

Mr Paul Scurrah was appointed Managing Director and Chief Executive Officer and appointed to the Board on 25 March 2019. Mr Scurrah is a member of the Safety and Operational Risk Review Committee.

Mr Scurrah has more than 20 years of leadership experience in the transport, logistics, travel and aviation sectors, having previously been CEO of DP World Australia and Queensland Rail and held Executive Management roles at Aurizon, Flight Centre and Tourism Queensland.

Mr Scurrah is a Non-Executive Director of the Gold Coast Suns Football Club. He was previously a director of Australia Post (2017-2019), Asian Terminals Inc (ATI), the Australian Federation of Travel Agents, AOT Group, AWH Pty Ltd, Public Transport Group-Australasian Railway Association and Chairman of Australian Tourism Data Warehouse Ltd.

Listed directorships held at the date of this report or during the three year period ending 30 June 2019:

- Nil

Mr Trevor Bourne – Bachelor of Engineering (Mechanical), University of New South Wales, Master of Business Administration, University of Newcastle, Fellow of the Australian Institute of Company Directors, Independent Non-Executive Director

Mr Trevor Bourne was appointed to the Board on 1 January 2018. Mr Bourne is Chair of the Safety and Operational Risk Review Committee, a member of the Audit and Risk Management Committee, the Remuneration Committee and the Nomination Committee.

Mr Bourne is the Chairman of the ASX listed company Senex Energy Limited. He is also a Director of Sydney Water Corporation. Previously, Mr Bourne served as a Director of Origin Energy Limited for 12 years, a Director of Caltex Australia Limited for 13 years and Coates Hire Ltd for four years, as well as holding other directorships. He was Chief Executive Officer of Tenix Industries for four years and prior to that was a senior executive at Brambles Industries Limited for 15 years, the last six of which as Managing Director of Brambles Australia.

Listed directorships held at the date of this report or during the three year period ending 30 June 2019:

- Director of Caltex Australia Limited (2 March 2006 to 9 May 2019)
- Chairman of Senex Energy Ltd (current, appointed December 2014)

Mr Mark Chellew – Bachelor of Science (Ceramic Engineering), University of New South Wales, Master of Engineering (Mechanical), University of Wollongong, Graduate Diploma of Management, University of New South Wales, Independent Non-Executive Director

Mr Mark Chellew was appointed to the Board on 1 January 2018. Mr Chellew is Chair of the Remuneration Committee, a member of the Audit and Risk Management Committee and the Nomination Committee.

Mr Chellew is the Chairman of the ASX listed company Cleanaway Waste Management Limited and has served as a Non-Executive Director of that company since 2013. He is also a Director of the ASX listed group Infigen Energy Limited and Caltex Australia Limited and was until recently Chairman of the industry body, Manufacturing Australia. He was the Chief Executive Officer and Managing Director of Adelaide Brighton for 13 years. Prior to that, he held executive management positions at Blue Circle Industries and CSR.

Listed directorships held at the date of this report or during the three year period ending 30 June 2019:

- Chairman of Cleanaway Waste Management Limited (current, appointed 1 March 2013)
- Director of Caltex Australia Limited (current, appointed 2 April 2018)
- Director of Infigen Energy Limited(current, appointed September 2017)

Mr Ken Dean – B.Com (Hons), FCPA, FAICD, Independent Non-Executive Director

Mr Ken Dean was appointed to the Board on 1 December 2016. Mr Dean is Chair of the Audit and Risk Management Committee, a member of the Safety and Operational Risk Review Committee and the Nomination Committee. He is Chair of Velocity Frequent Flyer Holdco Pty Ltd.

Mr Dean is a Director of Energy Australia. He is Chair of the Audit & Risk Committee and a member of the Health, Safety, Security & Environment Committee at Energy Australia. He is also the Non-Executive Chairman of the not-for-profit organisation Mission Australia.

Previously, Mr Dean was a Director of BlueScope Steel Limited, Santos Limited, Woodside Petroleum Limited and the Chief Financial Officer of resources company Alumina Limited.

Mr Dean worked for Shell Group for 30 years, during which time he held a number of executive roles, managing foreign exchange and money markets, insurance, mergers and acquisitions, internal audit, financial control and SAP implementation, and as a Shell nominee Director of joint venture companies and committees. He was Chief Executive Officer of Shell Financial Services, a member of the Shell Group Global Senior Management Team and Executive Director of Finance and Corporate Services for Shell Australia.

Listed directorships held at the date of this report or during the three year period ending 30 June 2019:

- Director of Bluescope Steel Limited (21 April 2009 - 23 November 2018)

Directors (continued)

Details of directors and alternate directors, their qualifications, experience and special responsibilities (continued)

Mr Ray Gammell – Bachelor of Arts degree, University College Galway, Master's degree in Business Studies, University College Dublin, Chartered Fellow of the Chartered Institute of Personnel Development, Non-Executive Director

Mr Ray Gammell was appointed to the Board on 20 December 2018 and is a member of the Audit and Risk Management Committee and the Remuneration Committee.

Mr Gammell was appointed Senior Strategic Advisor to the Group CEO of Etihad Aviation Group in July 2018. He joined Etihad in 2009 as Chief People and Performance Officer, developing and leading the company's people strategy. He also served as Interim Group Chief Executive Officer of Etihad Aviation Group from May to December 2017, before taking on the role of Chief People and Transformation Officer. As Senior Advisor to the Group CEO, he leads the equity partner strategy in addition to other strategic responsibilities. He has almost 40 years of experience, gained internationally with the Intel Corporation in the US and Ireland, the Royal Bank of Scotland, and as an officer in the Irish Armed Forces.

Listed directorships held at the date of this report or during the three year period ending 30 June 2019:

- Nil

Mr Hou Wei – B. Chinese Language and Literature (Beijing Language and Culture University), Non-Executive Director

Mr Hou Wei was appointed to the Board as a Director on 28 May 2019 and is a member of the Safety and Operational Risk Review Committee.

Mr Hou is a senior executive of HNA Group, having joined HNA in 2006. His roles with HNA have been Executive Chairman of Hong Kong Airlines International Holdings Limited, President of Capital Airlines, Vice Marketing President of Hainan Airlines Holding, Marketing Director of Hainan Airlines Holding, Vice General Manager of Market Sales and International Affairs Manager of Market Sales.

Listed directorships held at the date of this report or during the three year period ending 30 June 2019:

- Nil

Air Chief Marshal Sir Angus Houston, AK, AFC (Ret'd), Independent Non-Executive Director

Sir Angus Houston was appointed to the Board on 12 December 2018 and is a member of the Audit and Risk Management Committee and the Safety and Operational Risk Committee.

Sir Angus is Chancellor of the University of the Sunshine Coast Council. He is also Chair of a number of Boards including the Defence South Australia Advisory Board, the Victorian Police Corporate Advisory Group, the University of NSW Canberra Advisory Board, the Canberra Symphony Orchestra and the Supashock Advanced Suspension Advisory Board. He is a visiting fellow of the Australian National University Security College and the South Australian Special Envoy for International Trade & Investment.

In addition, Sir Angus serves as a board member for numerous organisations and is Ambassador/Patron of a number of charitable organisations.

Sir Angus was awarded the Knight of the Order of Australia in January 2015 for extraordinary and pre-eminent achievement and merit in service to Australia through distinguished service in the Australian Defence Force and continued commitment to serve the nation in leadership roles.

Sir Angus has been awarded four honorary doctorate degrees from the University of South Australia, the Australian National University, the University of New South Wales and Griffith University.

In July 2011, Sir Angus retired as Chief of the Australian Defence Force after 41 years of service in the military.

Listed directorships held at the date of this report or during the three year period ending 30 June 2019:

- Nil

Mr Lan Xiang – Bachelor's Degree in Aeronautical Electrical Engineering, Civil Aviation University of China, Masters Degree in Business Management, Beijing Normal University, Non-Executive Director

Mr Lan Xiang was appointed to the Board on 24 July 2017 and is a member of the Safety and Operational Risk Review Committee.

Mr Lan is the President of Qingdao Airlines, which forms a part of the Nanshan Group. He joined Qingdao Airlines in 2013 as the Vice President responsible for Marketing and Informational Technology.

Prior to this, Mr Lan was an executive and senior system analyst at Travel Sky, a provider of information technology solutions for the aviation and tourism industries. He has also held positions at Shenzhen Airlines and China Southern Airlines.

Listed directorships held at the date of this report or during the three year period ending 30 June 2019:

- Nil

Directors (continued)

Details of directors and alternate directors, their qualifications, experience and special responsibilities (continued)

Mr Warwick Negus – BBus (UTS), MCom (UNSW), SF Fin, Non-Executive Director

Mr Warwick Negus was appointed to the Board on 3 January 2017 and is a member of the Audit and Risk Management Committee and the Nomination Committee.

Mr Negus is Chairman of Pengana Capital Group and URB Investments Limited. He is also a Director of Washington H Soul Pattinson & Co and Bank of Queensland, a Director of the diversified real estate company Terrace Tower Group and Chairman of UNSW Global Limited.

From 2005 to 2008, Mr Negus was Chief Executive of Colonial First State Global Asset Management, Australia's largest fund manager. Prior to this, he co-founded 452 Capital, an independent fund management company, and held a number of senior positions in asset management and investment banking at Goldman Sachs in Hong Kong, Singapore, London and Sydney. He is also a member of the Council of University of NSW.

Listed directorships held at the date of this report or during the three year period ending 30 June 2019:

- Chairman of Pengana Capital Group (current, appointed 1 June 2017)
- Chairman of URB Investments Limited (current, appointed 13 October 2016)
- Director of Washington H Soul Pattinson & Company Limited (current, appointed 1 November 2014)
- Director of Bank of Queensland (current, appointed 22 September 2016)

Ms Judith Swales – B.Sc, Warwick University, AICD, Independent Non-Executive Director

Ms Judith Swales was appointed to the Board on 29 May 2019 and is a member of the Remuneration Committee.

Ms Swales was until recently a Non-Executive Director for Dulux Group and has previously served as a Non-Executive Director for Fosters.

Ms Swales has been Chief Operating Officer Global Consumer and Foodservice for Fonterra since 2018, and was previously Chief Operating Officer Transformation and Innovation, Managing Director Oceania and Managing Director Australia. Prior to her roles at Fonterra, she was Managing Director for Heinz Australia, Managing Director and Chief Executive Officer for Goodyear Dunlop Tyres Australia and New Zealand, and Managing Director for Angus & Robertson/WH Smith Australia. This follows management roles for WH Smith, Cullens Stores and Marks & Spencer in the United Kingdom.

Listed directorships held at the date of this report or during the three year period ending 30 June 2019:

- Dulux Group (April 2011 to 21 August 2019)

Mr Marvin Tan – BA International Relations, Stanford University, Non-Executive Director

Mr Marvin Tan was appointed to the Board on 1 January 2016 and is a member of the Remuneration Committee.

Mr Tan is the Senior Vice President Customer Services and Operations for Singapore Airlines. He joined Singapore Airlines in 1996 and has held various positions in the company both in Singapore and overseas. Prior to his current role, he was the Senior Vice President Cabin Crew. He was also seconded to SilkAir, Singapore Airlines' regional subsidiary, as the airline's Chief Executive.

Mr Tan holds a Bachelor of Arts degree in International Relations from Stanford University.

Listed directorships held at the date of this report or during the three year period ending 30 June 2019:

- Nil

Directors (continued)

Details of directors and alternate directors, their qualifications, experience and special responsibilities (continued)

Mr Du Ming – Bachelor's Degree, Civil Aviation University of China, Advanced Masters Degree, Aviation Management, Ecole Nationale de l'aviation civil (ENAC) and Tsinghua, Alternate Director

Mr Du Ming was appointed as Alternate Director to Mr Hou Wei on 28 May 2019.

Mr Du joined the HNA Group in 2001 and is a veteran airline executive. He has served in a broad range of managerial roles including flight operations, safety system, network planning and finance. He is also the Chairman of the Australian International Aviation College.

Listed directorships held at the date of this report or during the three year period ending 30 June 2019:
- Nil

Mr Tan Pee Teck – B.B.A (Hons), National University of Singapore, MSc International Marketing, University of Strathclyde, Alternate Director

Mr Tan Pee Teck was appointed as Alternate Director to Mr Marvin Tan on 1 January 2016.

Mr Tan is the Senior Vice President Cabin Crew of Singapore Airlines. He joined Singapore Airlines in 1994 and has held various appointments both in Singapore and overseas, most recently as Senior Vice President Product and Services. He holds a Bachelor of Business Administration degree (honours) from the National University of Singapore and a Masters of Science in International Marketing from the University of Strathclyde.

Mr Tan was appointed to the Board of Ritz-Carlton, Millenia Singapore Properties Private Limited on 1 September 2017.

Listed directorships held at the date of this report or during the three year period ending 30 June 2019:
- Nil

Mr Wu An – Bachelor's Degree, Beijing University of International Study (First Class Honours), Undertook Masters program in Economics at Capital University of Trade and Economics, Alternate Director

Mr Wu An was appointed as Alternate Director to Mr Lan Xiang on 24 July 2017.

Mr Wu is the General Manager of Nanshan Group's Investments department, a position he has held since 2015.

Prior to this, Mr Wu was a senior executive and consultant at Geoff Raby & Associates, a consulting firm founded by former Australian Ambassador Dr Geoff Raby.

Between 2004 and 2012, Mr Wu served three Australian Ambassadors to China, providing advice on a wide range of issues.

Listed directorships held at the date of this report or during the three year period ending 30 June 2019:
- Nil

Directors (continued)

Directors' meetings

Details of the number of meetings held by the Board and its Committees during the 2019 financial year and each director's attendance at those meetings are set out below:

	Board		Committees[1]									
			Audit and Risk Management		Nomination		Remuneration		Safety and Operational Risk Review		Special Purpose	
Director	Attended	Held[2]	Attended	Held[2]	Attended	Held[2]	Attended	Held[2]	Attended	Held[2]	Attended	Held[2]
Ms E Bryan AM	7	7	-	-	3	3	-	-	-	-	3	3
Mr J Borghetti AO	5	5	-	-	-	-	-	-	3	3	-	-
Mr T Bourne	6	7	6	7	-	-	5	5	4	4	-	-
Mr M Chellew	7	7	7	7	-	-	5	5	-	-	3	3
Mr K Dean	7	7	7	7	-	-	-	-	4	4	-	-
Mr R Gammell	3	4	3	3	-	-	1	1	-	-	-	-
Mr W Hou	-	1	-	-	-	-	-	-	-	-	-	-
Sir Angus Houston	3	3	3	3	-	-	-	-	2	2	-	-
M R Kamark	3	4	3	4	-	-	-	-	-	-	-	-
Mr X Lan	6	7	-	-	-	-	-	-	4	4	-	-
Ms S Mostyn	7	7	-	-	2	3	-	-	3	4	-	-
Mr W Negus	7	7	6	7	-	-	-	-	-	-	2	3
Mr P Scurrah	2	2	-	-	-	-	-	-	1	1	-	-
Ms J Swales	-	-	-	-	-	-	-	-	-	-	-	-
Mr M Tan	7	7	-	-	3	3	5	5	-	-	-	-
The Hon. M Vaile AO	5	5	3	4	1	2	2	3	-	-	-	-
Mr K Zhang	5	6	-	-	-	-	-	-	-	4	-	-
Mr M Du (Alternate to Mr W Hou)	1	1	-	-	-	-	-	-	-	-	-	-
Mr A Wu (Alternate Director to Mr X Lan)	-	-	-	-	-	-	-	-	-	-	-	-
Mr J Luo (Alternate Director to Mr K Zhang)	-	-	-	-	-	-	-	-	-	-	-	-
Mr P T Tan (Alternate Director to Mr M Tan)	-	-	-	-	-	-	-	-	-	-	-	-

(1) There is a standing invitation for all directors to attend all Committee meetings. Directors are encouraged, and often attend meetings of Committees of which they are not members. The Chairman attends all Committee meetings.

(2) Indicates the number of meetings held during the period the director was a member of the Board or relevant Committee or, in the case of alternate directors, while they were acting in the place of their appointing director.

Directors (continued)

Directors' interests

The table below sets out the relevant interests in shares of Virgin Australia Holdings Limited held, as at the date of this report, by the directors and alternate directors. These include any interests held by them directly, indirectly or beneficially (including shares held in the name of a trustee, nominee or superannuation fund). Details of these relevant interests have been disclosed to the Australian Securities Exchange (ASX) in accordance with section 205G(1) of the *Corporations Act 2001* (Cth) and the ASX Listing Rules.

Director	Number of relevant interests in ordinary shares
Ms Elizabeth Bryan AM	227,044
Mr Paul Scurrah	-
Mr Trevor Bourne	100,000
Mr Mark Chellew	100,000
Mr Ken Dean	40,000
Mr Ray Gammell	-
Mr Hou Wei	-
Sir Angus Houston	-
Mr Lan Xiang	-
Mr Warwick Negus	-
Ms Judith Swales	-
Mr Marvin Tan	-
Mr Du Ming (Alternate Director)	-
Mr Tan Pee Teck (Alternate Director)	-
Mr Wu An (Alternate Director)	-

As at the date of this report, no options or rights over (nor contractual rights to call for or deliver) shares in Virgin Australia Holdings Limited or any related body corporate are held by any director or alternate director. Nor does any director or alternate director hold any right or option over (or any contractual right to call for or deliver) any debentures of, or interests in a registered scheme made available by, VAH or any related body corporate.

Company secretary

Ms Sharyn Page BA LLB ACIS was appointed Company Secretary on 1 February 2016. Ms Page was previously Company Secretary and General Counsel of SKILLED Group Ltd (December 2012 – December 2015) and Head of Human Resources (July 2014 – December 2015). Prior to that, Ms Page was Company Secretary of Spotless Group (2010 – 2012), Deputy Company Secretary ANZ (2009), Company Secretary Arrium Limited (2008 – 2009), Board Executive and Company Secretary AMP Limited (2005 – 2008) and Assistant Company Secretary AMP Limited (2003 – 2005). Ms Page previously held a number of legal and compliance roles within the financial services industry.

Corporate governance statement

The Corporate governance statement for Virgin Australia Holdings Limited is located at www.virginaustralia.com/corporategovernance.

Operating and financial review

Principal activities and overview of the Group

The principal activities of the Group during the 2019 financial year were the operation of a domestic and international passenger and cargo airline business and a loyalty program. The Group offers a variety of aviation products and services to all key segments of the Australian aviation market, including corporate, government, leisure, low cost, regional and charter travellers and air freight customers. There were no significant changes in the nature of the activities of the Group during the year.

The Group operates a global virtual network of over 460 destinations through its domestic and international operations, strategic alliances, codeshare and interline agreements.

The Group flies to 39 city and regional destinations in Australia and a range of international destinations including Hong Kong, the United States of America, New Zealand, Indonesia and the South Pacific Islands.

The Group currently operates a fleet of aircraft that includes Boeing 737 and Boeing 777 aircraft, Airbus A320 and A330 aircraft, ATR aircraft and Fokker F100 aircraft.

The Group employs more than 10,000 people in Australia, New Zealand, Hong Kong and the United States of America.

The Group has strategic alliances with four key airline partners: Delta Air Lines Inc., Etihad Airways P.J.S.C., HNA Aviation Group (including Hong Kong Airlines) and Singapore Airlines Limited. Since ending its strategic alliance with Air New Zealand, from 28 October 2018 onwards, the Group became a standalone operator on Trans Tasman routes.

Key developments

On 6 February 2019, the Group announced that Paul Scurrah had been appointed as the new Chief Executive Officer and Managing Director of the Virgin Australia Group, replacing John Borghetti, who stepped down from his position on 25 March 2019. Paul commenced in his role on the same date.

On 26 February 2019, the Group announced the successful pricing of $250.0 million in Australian dollar unsecured fixed rate bonds which mature in May 2024. The bond issue underpins the Group's funding strategy to extend its debt maturity profile and increase the proportion of AUD funding in its debt portfolio to better match its revenue currencies.

On 30 April 2019, the Group announced that it had reached an agreement with Boeing to restructure its Boeing 737 MAX aircraft deliveries, whereby the Group will take delivery of its first MAX aircraft, being a Boeing 737 MAX 10 aircraft, in July 2021. The first Boeing 737 MAX 8 aircraft is scheduled to arrive in 2025. This agreement will also see a significant deferral of capital expenditure and an extension of the use of existing aircraft in the Group's fleet.

Throughout the 2019 financial year, the Group also expanded its network proposition, launching two new domestic routes, Perth-Hobart and Perth-Gold Coast (seasonal) and five new international routes, being Sydney-Hong Kong; Sydney-Wellington; Melbourne-Queenstown; Newcastle-Auckland (seasonal); and Darwin-Denpasar (seasonal).

On 28 August 2019, the Group announced a number of cost base initiatives, including an organisational rightsizing program targeting a reduction of 750 roles and annualised cost savings of $75.0 million and the renegotiation of key supplier contracts targeting cost savings of $50.0 million.

On 16 September, the Group announced that it had entered into negotiations with Affinity Equity Partners to buy back Affinity's 34.82% interest in the Velocity Frequent Flyer Group for $700.0 million.

Operating and financial review (continued)

Statutory results

A summarised statement of profit or loss for the current year compared to the prior year is provided below.

	2019 $m	2018 $m	Movement $m	Movement %
Revenue and income	**5,827.1**	5,420.7	406.4	7.5
Net operating expenditure	**(5,961.7)**	(5,473.0)	(488.7)	(8.9)
Share of net profit of equity-accounted investee	-	3.5	(3.5)	(100.0)
Loss before net finance costs and tax	**(134.6)**	(48.8)	(85.8)	(175.8)
Net finance costs	**(160.7)**	(152.6)	(8.1)	(5.3)
Loss before tax	**(295.3)**	(201.4)	(93.9)	(46.6)
Income tax expense	**(20.1)**	(451.9)	431.8	95.6
Loss	**(315.4)**	(653.3)	337.9	51.7

The Group recognised a statutory loss after tax of $315.4 million, a $337.9 million improvement compared to the previous year's statutory loss after tax of $653.3 million. The improvement is attributable to the decrease in tax expense of $431.8 million, following a $451.9 million tax expense entry in the previous financial year which included the derecognition of deferred tax assets of $511.4 million, compared to a $115.7 million derecognition in the current financial year. Refer to note B5 to the consolidated financial statements for further information in relation to taxation. The loss before tax of $295.3 million is a decline of $93.9 million compared to the previous year's loss of $201.4 million. This reflects higher fuel and foreign exchange costs of $158.8 million. While impairment losses on cash-generating units and other assets have decreased by $16.0 million compared to the previous year, net operating expenditure has increased. This is set out in more detail below. Refer to note D4 to the consolidated financial statements for further information in relation to impairment testing.

Revenue and income increased by $406.4 million from $5,420.7 million to $5,827.1 million. This is the Group's highest ever full year revenue and income result and reflects a 5.7 per cent increase in Revenue Passenger Kilometres (RPKs)(1) and a 2.1 per cent improvement in Revenue Per Available Seat Kilometre (RASK)(2) over the same period.

Net operating expenditure increased by $488.7 million from $5,473.0 million to $5,961.7 million. The increases are mainly volume-related increases in airport charges, navigation and station operations, commissions and other marketing and reservation expenses, fuel and oil and labour and staff related expenses as a result of increased RPKs. Catering costs increased by $35.6 million, mainly due to increased costs on international routes, launched during the year. Depreciation and amortisation expenses increased by $36.1 million mainly as a result of the capitalisation of additional aircraft assets and the impact of a weaker Australian dollar on depreciation of US dollar assets. In addition, $152.2 million of the $193.0 million increase in fuel and oil expenses is due to higher fuel prices.

The Group's equity-accounted investee, Virgin Samoa Limited, ceased operations in the previous financial year and therefore the Group did not recognise any profit during the current financial year in relation to this investment. Refer to note F2 to the consolidated financial statements for further information in relation to investments accounted for using the equity method.

Net finance costs increased by $8.1 million from $152.6 million to $160.7 million. Finance income increased by $9.3 million, mainly as a result of interest income from additional funds held on deposit. In addition, finance costs increased by $17.4 million, mainly due to the increase in interest-bearing liabilities. Refer to notes B4 and E3 to the consolidated financial statements for further information.

(1) Revenue Passenger Kilometres or RPKs is a non-statutory measure derived from the number of paying passengers multiplied by the number of kilometres flown on Virgin Australia and Tigerair Australia operated flights.

(2) RASK is a non-statutory measure derived from segment revenue divided by Available Seat Kilometres (ASKs) of the Regular Passenger Transport business. ASK is a non-statutory measure derived from total number of seats available for passengers multiplied by the number of kilometres flown on Virgin Australia and Tigerair Australia operated flights.

Operating and financial review (continued)

Underlying results

The following table summarises the amounts that are excluded from the statutory results to arrive at the underlying and segment results. The Group's underlying loss before tax[3] was $71.2 million, a reduction of $135.6 million on the previous year's underlying profit before tax of $64.4 million.

	2019 $m	Restated[4] 2018 $m
Statutory loss after tax	**(315.4)**	(653.3)
Add back:		
Income tax expense	**20.1**	451.9
Share of net profit of equity-accounted investee	**-**	(3.5)
Impairment losses on cash-generating units	**152.6**	120.8
Restructuring and transaction costs and impairment losses on other assets	**70.6**	148.5
Ineffectiveness on cash flow hedges	**0.9**	-
Underlying profit/(loss) before tax[3]	**(71.2)**	64.4
Add back: Net finance costs	**160.7**	152.6
Segment EBIT[5]	**89.5**	217.0

Segment results[5]

The following table summarises the segment results for the Group.

	2019 $m	Restated[4] 2018 $m	Movement $m	Movement %
Revenue and income				
Virgin Australia Domestic	**3,914.9**	3,682.0	232.9	6.3
Virgin Australia International	**1,304.8**	1,120.3	184.5	16.5
Velocity	**411.0**	372.0	39.0	10.5
Tigerair Australia	**563.4**	570.6	(7.2)	(1.3)
Segment EBIT				
Virgin Australia Domestic	**133.4**	215.8	(82.4)	(38.2)
Virgin Australia International	**(75.6)**	(21.7)	(53.9)	(248.4)
Velocity	**122.2**	110.1	12.1	11.0
Tigerair Australia	**(45.0)**	(39.5)	(5.5)	(13.9)

	2019 %	Restated[4] 2018 %	Movement points
Segment EBIT margin			
Virgin Australia Domestic	**3.4**	5.9	(2.5)
Virgin Australia International	**(5.8)**	(1.9)	(3.9)
Velocity	**29.7**	29.6	0.1
Tigerair Australia	**(8.0)**	(6.9)	(1.1)

(3) Underlying profit/(loss) before tax is a non-statutory measure. This measure is used by management and the Board to assess the financial performance of the Group. This non-IFRS information has not been audited or reviewed by KPMG.

(4) 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.

(5) Segment results include references to Segment EBIT which is a non-statutory measure per note B1 to the consolidated financial statements and Segment EBIT margin. Segment EBIT and Segment EBIT margin are used by management and the Board to assess the financial performance of the individual segments within the Group.

Operating and financial review (continued)

Segment results (continued)

Virgin Australia Domestic

Virgin Australia Domestic reported a Segment EBIT of $133.4 million, down $82.4 million from $215.8 million in the prior comparative period. Fuel prices and foreign exchange rate impacts contributed approximately $87.6 million to the decline. The segment EBIT margin also dropped by 2.5 points to 3.4 per cent.

Total Virgin Australia Domestic revenue increased by 6.3 per cent to $3,914.9 million, supported by Yield[(6)] growth of 4.1 per cent and RASK improvement of 4.0 per cent. However, revenue growth was lower than expected in the second half of the financial year, with the timing of the Easter holiday period and the federal election contributing to weakness in the corporate and leisure travel sectors.

Earnings performance was also impacted by costs associated with a 2.3 per cent increase in domestic capacity, airport fees, fuel costs, and catering service charges. In light of the adverse market conditions being experienced, the Group is assessing its network and capacity plans and conducting a targeted supply chain review.

Virgin Australia International

Virgin Australia International's revenue increased by 16.5 per cent to $1,304.8 million. Revenue and RASK improved on all of the Group's international routes, and load performance improved on all routes except for the Trans-Tasman, despite adverse revenue trading conditions in the second half of the current financial year.

Capacity growth of 13.7 per cent was driven largely by the launch of services between Sydney and Hong Kong and new services on the Trans-Tasman following the cessation of the Air New Zealand alliance in October 2018.

Despite the strong revenue performance, Segment EBIT declined by $53.9 million to a loss of $75.6 million in the current financial year. The Segment EBIT excludes the impairment of the Virgin Australia International cash-generating unit of $47.6 million in the current financial year and $120.8 million in the prior financial year. The segment EBIT margin also dropped by 2.5 points to 3.4 per cent. Fuel price and foreign exchange impacts of approximately $51.9 million and an investment of $15.0 million in the new Hong Kong and Trans-Tasman routes contributed to the decline.

Velocity

Velocity reported a Segment EBIT of $122.2 million, an increase of $12.1 million compared to the prior financial year. Segment EBIT margin increased by 0.1 points to 29.7 per cent.

The program increased revenue by 10.5 per cent to $411.0 million and attracted more than 680,000 new members. Velocity continued to drive growth opportunities and broaden its customer proposition. Member engagement remained strong, with redemption activity at its highest ever level in the current financial year.

Tigerair Australia

Tigerair's Segment EBIT declined by $5.5 million to $45.0 million compared to the prior financial year. Fuel prices and foreign exchange rate impacts contributed approximately $19.3 million to the decline, offsetting other increases.

While revenue was down $7.2 million on the prior corresponding period, primarily due to industrial action, this was offset by a reduction in operational costs due to a 1.7 per cent reduction in capacity. The capacity reduction contributed a 0.5 per cent RASK improvement and 2.7 per cent improvement in Yield performance.

The Segment EBIT excludes the impairment of the Tigerair Australia cash-generating unit of $105.0 million in the current financial year.

(6) Yield is a non-statutory measure derived from segment revenue normalised for cargo operations on a consistent basis divided by Revenue Passenger Kilometres of the Regular Passenger Transport business.

Operating and financial review (continued)

Financial position

A summarised statement of financial position for the Group for the current year compared to the prior year is provided below:

	2019 $m	2018 $m	Movement $m	Movement %
Current assets	**2,165.3**	1,979.5	185.8	9.4
Non-current assets	**4,302.9**	4,208.9	94.0	2.2
Total assets	**6,468.2**	6,188.4	279.8	4.5
Current liabilities	**3,236.9**	2,523.9	713.0	28.2
Non-current liabilities	**2,612.4**	2,569.5	42.9	1.7
Total liabilities	**5,849.3**	5,093.4	755.9	14.8
Net assets	**618.9**	1,095.0	(476.1)	(43.5)
Share capital	**2,238.5**	2,238.9	(0.4)	-
Reserves	**117.6**	268.3	(150.7)	(56.2)
Retained earnings	**(1,766.4)**	(1,415.8)	(350.6)	(24.8)
Non-controlling interests	**29.2**	3.6	25.6	711.1
Total equity	**618.9**	1,095.0	(476.1)	(43.5)

Assets

Cash and cash equivalents increased by $324.5 million to $1,740.0 million during the current financial year. This is the Group's highest cash balance recognised at the end of a financial year. Unrestricted cash increased from $1,000.8 million in the prior financial year to $1,330.3 million in the current financial year.

Derivative financial instrument asset balances have decreased by $198.9 million during the period to $85.1 million. The settlement of fuel hedging gains that were unrealised at 30 June 2018 and the origination of new fuel hedging contracts resulted in a $214.7 million decrease in this asset. Increases in the value of forward foreign exchange contracts due to the weakening Australian dollar resulted in an increase of $15.8 million. Refer to note E7 to the consolidated financial statements for further information in relation to financial risk management.

The Group received a final dividend from its equity-accounted investee, Virgin Samoa Limited, following the cessation of operations in November 2017. As a result, the carrying value of the investment was reduced to nil.

Other financial assets decreased by $9.4 million mainly as a result of a decrease in maintenance reserve deposits due to an impairment of $8.3 million.

Net deferred tax assets 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. Refer to note B5 to the consolidated financial statements for further information in relation to taxation.

Property, plant and equipment increased by $171.1 million due to the following factors:

- $525.5 million of additions; less
- $93.1 million of impairment losses on cash-generating units; less
- $1.6 million of disposals; less
- $324.2 million of depreciation; less
- $17.2 million of transfers to intangible assets; plus
- $81.7 million of foreign exchange gains as a result of the weakening Australian dollar.

Refer to note D2 to the consolidated financial statements for further information on the movements in property, plant and equipment.

Intangible assets decreased by $36.3 million due to the following factors:

- $55.2 million of additions; less
- $49.2 million of amortisation; less
- $59.5 million of impairment losses on cash-generating units; plus
- $17.2 million of transfers from property, plant and equipment.

Refer to note D3 to the consolidated financial statements for further information on movements in intangible assets.

Operating and financial review (continued)

Financial position (continued)

Liabilities

Current and non-current interest-bearing liabilities increased by $460.7 million mainly as a result of net proceeds from borrowings of $348.4 million and the effect of foreign exchange rates of $97.0 million. The proceeds from borrowings included the issue of $250.0 million in Australian dollar unsecured fixed rate bonds, which mature in May 2024, and new financing facilities secured against aeronautical assets. Refer to note E3 to the consolidated financial statements for further information on the Group's interest-bearing liabilities.

Derivative financial instrument liability balances increased by $10.8 million during the period. The settlement of fuel hedging losses that were unrealised at 30 June 2018 and the origination of new fuel hedging contracts resulted in an $11.9 million increase in this liability. The remaining decrease in the balance relates to changes in the value of forward foreign exchange contracts due to the weakening Australian dollar. Refer to note E7 to the consolidated financial statements for further information in relation to financial risk management.

Current and non-current provisions increased by $48.7 million. This includes an increase of $10.8 million due to the unwinding of discounted provisions and a $19.3 million increase due to the effect of exchange rate fluctuations. Refer to note C6 to the consolidated financial statements for further information on the movements in provisions.

Current unearned revenue increased by $120.6 million, including an increase of $85.4 million in unearned passenger revenue as a result of increases in forward sales and an increase of $32.2 million in unearned loyalty program revenue.

Equity

Total equity decreased by $476.1 million during the current period mainly as a result of the statutory loss after tax of $315.4 million, decreases in the hedge and option time value reserves of $173.9 million in relation to the revaluation of derivative financial instruments and an equity distribution to non-controlling interests of $29.1 million. This was partly offset by an increase of $45.2 million in the foreign currency translation reserve as a result of the weakening Australian dollar.

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 consolidated financial statements have 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), which includes an unrestricted cash balance at 30 June 2019 of $1,330.3 million (2018: $1,000.8 million), ahead of a major bond maturity in November 2019 totalling US$400.0m (A$569.8m). 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. Capital management is detailed in note E1. Management of liquidity risk is detailed in note E7.

Operating statistics[7]

Operating statistics (Group)		2019	2018	Change	% Change
Available seat kilometres (ASKs)	million	**51,203**	48,575	2,628	5.4
Passengers carried		**24,786,063**	24,520,743	265,320	1.1
Revenue load factor	%	**80.2**	80.0	0.2	0.3

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.

(7) This non-IFRS information has not been audited or reviewed by KPMG.

Operating and financial review (continued)

Likely developments

The key areas of focus for the Group are outlined below:

- Undertaking a strategic review which will provide the foundations for the future direction for the company. This will include organisational right sizing and supplier reviews to reduce the Group's cost base as well as disciplined capacity and network management.
- Continuing to be the best value airline for both the corporate and leisure traveller, driving competition and offering the strong and unique Virgin experience and proposition that will appeal to all market segments.
- Maintaining a stringent hedging program to protect against adverse fuel and foreign exchange movements.
- Investing in the customer experience to deliver a rewarding travel experience for our guests.

Significant risks and uncertainties

The Group is exposed to a range of risks associated with operating in the domestic and international aviation industry. These include:

- Fuel price and foreign exchange trends, which can significantly affect costs, including fuel, aircraft and funding costs;
- Increases in airport, transit and landing fees, and the costs of ensuring air traffic security;
- Competition from other airlines and from alternative means of transportation;
- Government policy changes or decisions which could have an adverse impact on its business, operations and financial performance;
- Industrial action by unionised employees, which can adversely impact operations, financial performance and staff engagement;
- Stability of critical systems, including technology and communication services, which can disrupt operations;
- Cyber threats including (but not limited to) the introduction of malware to critical networks, exposure of vulnerable systems and software, denial of service attacks and compromise of sensitive information;
- Global economic and geopolitical conditions, as well as pandemics, terrorism, severe weather conditions, natural disasters or other Acts of God, which can materially adversely affect operations and demand for air travel;
- The medium to long term effects of changes to climate which may have a direct and/or indirect impact on the business;
- Losses associated with major safety or security incidents;
- Ability to obtain sufficient funds on acceptable terms, or at all, to provide adequate liquidity and to finance necessary operating and capital expenditures;
- Liquidity risk, inability to meet financial obligations, including aircraft purchase commitments, as they fall due; and
- Credit risk, failure of counterparties and dependency on third party service and facility providers.

The Group's exposure to these risks has the potential to affect financial performance, operations, liquidity, and/or result in impairment of the Group's cash-generating units and derecognition of deferred tax assets. Impairment testing is performed on an annual basis, or more frequently if required, to determine if the impact of key risks has generated impairment losses during the financial year and considers the potential impacts, through sensitivity testing, for future financial years. Refer to note D4 to the consolidated financial statements for further information on impairment testing.

The Group aims to ensure that all activities are undertaken within the Board of Directors approved risk appetite and management guidelines and with sufficient oversight to protect the safe operations, profitability, financial position and reputation of the Group.

The identification and proactive management of risk reduces uncertainty associated with the execution of the Group's business strategies and allows the Group to maximise opportunities as they arise. All personnel are accountable for identifying, assessing and managing risks in a proactive manner. The Group has established the Audit and Risk Management Committee which is responsible for the internal controls, policies and procedures that the Group uses to identify and manage business risks and the Safety and Operational Risk Review Committee which monitors operational risks. The risk management system implemented by the committee is described in further detail on the Company's website www.virginaustralia.com/corporategovernance. Details of the Group's material environmental, climate related and social sustainability risks, and the Group's approach to managing these are described in further detail on the Company's website www.virginaustralia.com/about-us/sustainability/reporting.

The Group is committed to managing risks in a proactive and effective manner. This commitment is supported by the Group's philosophy and approach to effective risk management and is in line with the principles outlined in the Group's Risk Management Policy, Safety Policy and Just Culture Policy.

Significant events after the balance date

On 28 August 2019, the Group announced a number of cost base initiatives, including an organisational rightsizing program targeting a reduction of 750 roles and annualised cost savings of $75.0 million and the renegotiation of key supplier contracts targeting cost savings of $50.0 million.

On 16 September, the Group announced that it had entered into negotiations with Affinity Equity Partners to buy back Affinity's 34.82% interest in the Velocity Frequent Flyer Group for $700.0 million.

In the opinion of the directors, no other 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.

Remuneration report - audited

Dear Shareholder,

I am pleased to present our remuneration report for the 2019 financial year.

The key focus of the Remuneration Committee is to establish a remuneration structure that ensures the work of Executives is aligned with the best interests of all shareholders. Remuneration is structured to attract and retain Executives with the skills and experience needed to deliver the Group's strategy and reward them for the achievement of business objectives.

The Board has worked to ensure that the remuneration structure is aligned with the Group's focus on strengthening its financial foundation and performance. The 2018 financial year saw the Group focus on underlying profitability to support the Group's objectives of strengthening its balance sheet, enhancing its cash flow and continuing the implementation of the Better Business program in order to generate significant and sustainable Free Cash Flow savings. These three metrics remained the Group's priorities in the 2019 financial year with increased focus on improving the Group's Free Cash Flow. Achievement of threshold level of underlying Group profit remained the gateway for any short term incentive payment under the financial measures of the Group Scorecard.

The following table provides a summary of the remuneration structure and outcomes for the 2019 financial year.

Fixed Remuneration	As disclosed in the 2018 remuneration report, the Board approved an increase in fixed remuneration for Mr G Smith for the 2019 financial year. The Board also approved a temporary increase in Ms M McArthur's fixed remuneration in respect of her additional duties in the role of Acting Chief Commercial Officer. There were no other increases in fixed remuneration for the CEO or other Executive key management personnel (KMP) in the 2019 financial year. The Board has not approved any other increases in fixed remuneration for the CEO or other Executive KMP for the 2020 financial year.
Short Term Incentives (STI)	The Board reviewed the STI structure for the 2019 financial year. In order to increase the focus on improving the Group's Free Cash Flow, the Board reinstated equal weightings for profitability and Group Free Cash within the Group Scorecard for the 2019 financial year and introduced a stretch Group Free Cash target. The maximum potential awards under the stretch targets for profitability and delivery of the Better Business program were reduced so that the overall maximum STI award for the CEO and Executives remained unchanged. The STI awarded for the 2019 financial year reflects the Group's financial result in the face of weaker domestic demand and significant fuel and foreign exchange headwinds. Although the Group met its Better Business target, no STI was paid in respect of any of the financial measures in the Group Scorecard as the Group did not achieve the performance gateway based on underlying profit. The Group met and partially met the scorecard targets that the Board set on Safety and People and Culture respectively, but did not meet the Guest Satisfaction target.
Long Term Incentives (LTI)	LTI awards granted in the financial year 2019 to the former CEO, Mr J Borghetti, and the Executives were cash-based grants. The Board determined that the performance measures for these awards are annual Return on Invested Capital (ROIC) targets for each of the three years of the plan. Each target will only be measured, and any payment under the plan made, following the end of the third year. ROIC measures how efficiently capital is used to generate earnings growth and remains an important indicator of long term financial sustainability for the airline. As reported in February 2019, the Board has determined that future LTI awards to Mr P Scurrah will be allocated as 50% performance rights and 50% cash. The Board determined not to grant an LTI award to Mr Scurrah in financial year 2019 following his appointment as CEO on 25 March 2019. The first LTI award to be granted to Mr Scurrah will be in financial year 2020 and will reflect his period of service from 25 March 2019. This award will be subject to shareholder approval. Further details of the remuneration arrangements for Mr Scurrah are provided in this report. The LTI awards granted in financial year 2017 were tested against their performance measure after the end of the 2019 financial year. The performance measure for the CEO and Executives was ROIC. The Group's ROIC performance has led to no vesting of awards for the CEO and Executives under the 2017 LTI grant. The CEO of Velocity Frequent Flyer does not participate in the Group LTI plan as he participates in a separate LTI plan governed by the Velocity Frequent Flyer Board.
Non-Executive Director Remuneration	During the 2019 financial year the Board determined to cease payment of fees to Non-Executive Directors in respect of their membership of the Nominations Committee with effect from May 2019. No other changes were made to Non-Executive Director remuneration this year.

I invite you to read the full report which outlines the Group's remuneration philosophy and remuneration outcomes for the 2019 financial year. It is our intention to provide details on Executive remuneration in a manner that is clear, concise and transparent. In addition to the fulfilment of statutory reporting obligations, the Group has voluntarily disclosed the actual remuneration received by the CEO and other Executive KMP in the 2019 financial year.

M. Chellew

Mark Chellew
Chairman, Remuneration Committee

Remuneration report - audited (continued)

The report is structured as follows:

Key management personnel

The remuneration report sets out remuneration information for the key management personnel (KMP) of the Group.

KMP are those people who, directly or indirectly, have authority and responsibility for planning, directing and controlling the activities of the Company and Group.

For the Group, KMP are defined to be:

- Non-Executive Directors;
- Group Chief Executive Officer (CEO);
- Chief Financial Officer (CFO); and
- Segment CEOs.

This report has been audited in accordance with section 300A of the *Corporations Act 2001*.

For the year ended 30 June 2019, the Group Board of Directors were:

Name [(1)]	Position	Term as KMP
Ms E Bryan AM	Chairman	Full Year
Mr P Scurrah	Group Chief Executive Officer and Managing Director	Commenced 25 March 2019
Mr J Borghetti AO	Group Chief Executive Officer and Managing Director	Ceased 25 March 2019
Mr T Bourne	Independent Director	Full Year
Mr M Chellew	Independent Director	Full Year
Mr K Dean	Independent Director	Full Year
Mr W Negus	Director	Full Year
Mr M Tan	Director	Full Year
Mr L Xiang	Director	Full Year
Air Chief Marshall Sir A Houston (Ret'd)	Independent Director	Commenced 12 December 2018
Mr R Gammell	Director	Commenced 20 December 2018
Mr H Wei	Director	Commenced 28 May 2019
Ms J Swales	Independent Director	Commenced 29 May 2019
The Hon M Vaile AO	Independent Director	Ceased 12 December 2018
Mr R Kamark	Director	Ceased 20 December 2018
Mr Z Kui	Director	Ceased 28 May 2019
Ms S Mostyn	Independent Director	Ceased 29 May 2019

(1) During the financial year, Mr P T Tan, Mr W An, Mr R Gammell (commenced 17 July 2018 and ceased 20 December 2018), Mr L Jiaqi (commenced 17 July 2018 and ceased 24 April 2019) and Mr D Ming (commenced 28 May 2019) served as alternate Directors and were not eligible to receive fees during their term as alternate Directors.

Remuneration report - audited (continued)

Key management personnel (continued)

For the year ended 30 June 2019, the Executive KMP were:

Name	Position	Term as KMP
Mr P Scurrah	Group Chief Executive Officer and Managing Director	Commenced 25 March 2019
Mr J Borghetti AO	Group Chief Executive Officer and Managing Director	Ceased 25 March 2019
Mr G Smith	Chief Financial Officer	Full Year
Ms M McArthur(1)	Chief Executive Officer, Tigerair Australia and Acting Chief Commercial Officer, Virgin Australia Airlines	Full Year
Mr K Schuster	Chief Executive Officer, Velocity Frequent Flyer	Full Year
Mr R Sharp	Group Executive, Virgin Australia Airlines	Ceased 10 May 2019

(1) Ms M McArthur was appointed as Acting Chief Commercial Officer, Virgin Australia Airlines on 10 May 2019.

Remuneration governance

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policies, structure and performance of the CEO, Executives and Non-Executive Directors. The Board independently considers these recommendations before making remuneration decisions.

The Remuneration Committee ensures that remuneration policies align with Group strategy and objectives through the attraction, retention and performance of Executives. Full details of the responsibilities of the Remuneration Committee are set out in the Group's Corporate Governance Statement.

The remuneration of the CEO of Velocity Frequent Flyer is determined by the Velocity Frequent Flyer Board within the broader Group framework and is aligned to the Velocity Frequent Flyer strategy.

Use of remuneration consultants

During the 2019 financial year, the Board did not receive any remuneration recommendations from a remuneration consultant as defined by the *Corporations Act 2001 (Cth).*

Mandatory shareholding requirements

The Group does not have mandatory shareholding requirements for the CEO, Executives or Non-Executive Directors.

The Remuneration Committee considers that the interests of the CEO and Executives are sufficiently aligned with the Group strategy and objectives and shareholder interests through the current short and long term incentive design.

Securities trading policy

The Group securities trading policy applies to all Directors and employees of the Group. The policy ensures all Directors and employees are aware of the legal restrictions on trading Company securities while in possession of unpublished price sensitive information. Directors and Executives are required to obtain consent prior to dealing Company securities. Trading is only permitted during nominated trading windows, which are open for a four week period commencing on the first trading day after the release of the Company's half-year and full year results. A copy of the securities trading policy is available on the Company's website.

The securities trading policy prohibits short term trading and hedging economic exposure to unvested options issued pursuant to an employee option plan. Directors and the CEO are prohibited from obtaining margin loans using the Company's securities as security for loans.

Use of Board discretion

The Board maintains absolute discretion in finalising remuneration outcomes for incentive-based awards to the CEO and Executives. The Board may exercise discretion to increase or decrease (including to nil) incentive-based awards to take into account the impacts of external market conditions outside the control of the CEO and Executives. The Board is cognisant of ensuring any exercise of discretion reinforces the Group strategy and remuneration philosophy.

Remuneration report - audited (continued)

Executive remuneration overview

Remuneration philosophy

The Group is focused on delivering sustainable shareholder returns through lowering its cost base, growing revenue and earnings and further optimising its balance sheet. At the same time, the Group is firmly committed to delivering more choice and the best customer experience to Australian and international travellers.

The continued growth, development and success of the Group requires the alignment of Executive remuneration to the achievement of the Group strategy and delivery of shareholder returns.

Group Strategy

Remuneration Strategy

A framework that attracts and retains high quality Executives and rewards performance aligned to Group strategic objectives and delivery of shareholder returns over the short, medium and long term.

Remuneration Philosophy

Externally competitive	Pay for performance	Align with shareholders
The Board believes that the delivery of the Group's strategy requires the recruitment and retention of talented Executives at a competitive market rate.	Remuneration outcomes aim to deliver appropriate and fair rewards to the CEO and Executives consistent with the short, medium and long term objectives of the Group.	Remuneration is structured to reward the delivery of shareholder return over the medium and long term.

Summary of remuneration components

Fixed Remuneration	Short Term Incentive (STI)	Long Term Incentive (LTI)(1)
Fixed remuneration includes base salary and superannuation. The Board sets fixed remuneration levels to ensure the CEO and Executives are fairly remunerated relative to similarly sized ASX listed companies and is reflective of each individual's skills and experience.	The STI is linked to performance over a one year period. A balanced scorecard approach has been adopted with financial and non-financial measures linked to Group strategy and objectives. Any payment under the financial measures of the Group Scorecard in the 2019 financial year is subject to achieving the threshold annual profit level. A portion of the award is paid in cash following the end of the performance period. The remaining portion is deferred in cash over one year and is subject to continued employment.	The LTI is linked to financial performance over a three year period. LTI is a cash-based plan paid upon delivery of significant improvement in ROIC. ROIC has been selected as it is an important indicator of sustainability and profitability for an airline group and is based on several financial metrics, including earnings and invested capital.

(1) Details of the structure of LTI awards to Mr Scurrah, commencing in financial year 2020, are shown on page 28.

Remuneration report - audited (continued)

Executive remuneration overview (continued)

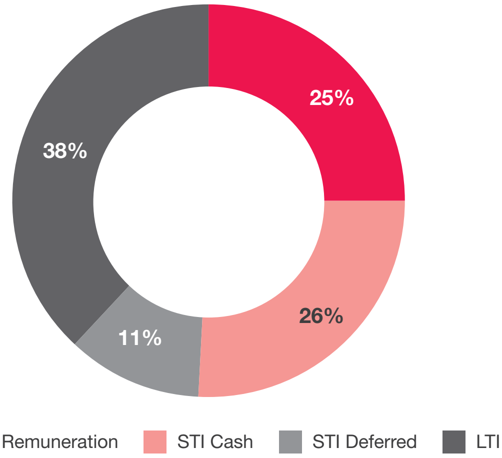
Summary of remuneration components (continued)

The remuneration of the CEO of Velocity Frequent Flyer is determined by the Velocity Frequent Flyer Board within the broader Group framework. In addition to alignment with the Group Scorecard, the CEO of Velocity Frequent Flyer has a set of measures under the STI aligned to Velocity Frequent Flyer performance. The CEO of Velocity Frequent Flyer participates in a separate LTI plan governed by the Velocity Frequent Flyer Board.

Remuneration mix

The remuneration mix has been structured to align the CEO and Executives with the short, medium and long term objectives of the Group. The following chart outlines the remuneration mix for the CEO and average mix for Executives at maximum opportunity on an annualised basis.

CEO(1) and Executive(2) Remuneration Mix



(1) Reflects the remuneration arrangements for Mr Scurrah. Mr Borghetti's annualised remuneration mix for financial year 2019 at maximum opportunity included 20% fixed remuneration, 20% STI cash, 10% STI deferred and 50% LTI.

(2) Excludes CEO of Velocity Frequent Flyer due to the indeterminate target value of the Velocity Frequent Flyer LTI.

Fixed remuneration

The Group aims to provide fixed remuneration that attracts and retains a CEO and Executives with the skills needed to deliver the Group strategy and objectives.

The Group takes the following factors into account when setting fixed remuneration levels:

- the CEO and Executives' individual skills, experience and ability to deliver Group strategy and objectives; and
- remuneration levels in comparison to similarly sized ASX listed companies.

The Board did not approve any increases in fixed remuneration for the current or former CEO in the 2019 financial year and has not approved any changes for the CEO in the 2020 financial year.

Short term incentives (STI)

The purpose of the STI is to reward delivery of the Group strategy and objectives, both financial and non-financial, over a one year time horizon. The performance measures included in the STI plan are also designed to align the CEO's and Executives' interests with the medium and longer term Group strategy and objectives and to position the Group for sustainable financial performance.

The Group Scorecard for financial year 2019 includes both financial and non-financial measures aligned to the Group strategy and objectives.

Remuneration report - audited (continued)

Executive remuneration overview (continued)

Short term incentives (STI) (continued)

How is performance measured?

Performance is measured using a balanced scorecard approach.

The CEO and Executives, excluding the CEO of Velocity Frequent Flyer, are aligned to a single Group Scorecard weighted to reflect the financial priorities of the Group. The financial measures are selected by the Board annually to reflect the key financial priorities of the Group.

The scorecard also includes non-financial measures relating to Guest Satisfaction, Safety and People and Culture which align closely to the Group strategy and objectives and are viewed by the Board as critical to the overall ongoing success of the Group.

Category		Weighting
Financial	**Profit** Underlying Group profit/(loss) before tax(1)	25%
	Better Business program Capital and operational efficiencies	15%
	Group Free Cash Group Free Cash Flow(2)	25%
Non-Financial	**Guest Satisfaction** Customer likelihood to recommend	10%
	Safety % lost-time injury per million hours worked	5%
	People and Culture People and culture objectives	5%
Individual	**Individual** Financial/strategic objectives	15%

(1) Underlying Profit/(Loss) Before Tax is a non-statutory measure that represents statutory profit/(loss) before tax excluding the impact of 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 and ineffectiveness on cash flow hedges.

(2) Group Free Cash Flow is a non-statutory measure derived from cash generated from operating activities less cash payments for business restructuring expenses less net cash used in investing activities less equity distributions paid to non-controlling interests.

The Board may exercise discretion to increase or decrease (including to nil) STI outcomes to take into account the impacts of external market conditions outside the control of the CEO and Executives. The Board is cognisant of ensuring any exercise of discretion reinforces the Group's strategy, objectives and remuneration philosophy.

How much can the CEO and Executives earn?

The STI sets threshold, target and stretch performance levels.

For the CEO, the opportunity at target is equal to 100% of fixed remuneration. For Executives this ranges between 100% and 110% of fixed remuneration.

The CEO and Executives can earn up to 150% of target STI for significant outperformance in the 2019 financial year against annual financial targets. For certain performance measures, where threshold performance levels are delivered, participants will be eligible to receive a payout between threshold and target.

The CEO and Executives are only eligible to receive an STI payment under the financial measures of the Group Scorecard when the threshold annual profit level is achieved.

Remuneration report - audited (continued)

Executive remuneration overview (continued)

Short term incentives (STI) (continued)

How and when is it paid?	STI outcomes are determined by the Board after the end of the financial year, based on recommendations from the Remuneration Committee. 70% of any STI payment for the CEO and the Executives is paid in cash following Board approval of performance results, typically in September, with the remaining 30% deferred in cash and paid in July of the following financial year. For the former CEO, any approved STI cash payment up to $1 million and 50% of the amount greater than $1 million, if any, is typically paid in September. The remaining amount (if any) is deferred and paid in July of the following financial year. The deferred component for the CEO and Executives is not subject to interest over the deferral period.
What happens if the CEO or an Executive leaves?	Upon cessation of the CEO's or an Executive's employment, the Board has discretion to determine the quantum (if any) of any STI payment.
What happens in a change of control?	The Board may resolve that a pro rata amount of any STI award will become payable in respect of the performance period up to the change of control event.
Are there any other vesting considerations?	The Board maintains absolute discretion to determine vesting of the deferred component.
How does the STI work for the CEO of Velocity Frequent Flyer?	The remuneration of the CEO of Velocity Frequent Flyer is determined by the Velocity Frequent Flyer Board within the broader Group framework. Performance is measured 10% aligned to the Group Scorecard and 90% to the Velocity Frequent Flyer Scorecard set by the Velocity Frequent Flyer Board. The CEO of Velocity Frequent Flyer is only eligible to receive an STI payment when the Velocity Frequent Flyer performance gateway is achieved. Once the performance gateway has been met, performance is measured using a balanced scorecard approach. The Velocity Frequent Flyer Scorecard at target is 60% weighted on EBIT, 20% on Membership Engagement, 10% on Free Cash Flow and 10% on People and Culture. The performance gateway is achievement of the annual EBIT target. The Velocity Frequent Flyer Board may exercise discretion to increase or decrease (including to nil) STI outcomes to take into account the impacts of external market conditions outside the control of the CEO of Velocity Frequent Flyer. The Velocity Frequent Flyer Board is cognisant of ensuring any exercise of discretion reinforces the Velocity Frequent Flyer strategy, objectives and remuneration philosophy. The CEO of Velocity Frequent Flyer has a target STI opportunity equal to 75% of fixed remuneration, with the potential to earn above target for Velocity Frequent Flyer EBIT outperformance. 70% of any STI payment is paid in cash following Velocity Frequent Flyer Board approval of performance results, typically in September, with the remaining 30% deferred in cash and paid in July of the following financial year.

Long term incentives (LTI)

The purpose of the LTI is to reward Executives for the delivery of the long-term financial objectives of the Group over a three year time horizon. Awards in financial year 2019 were made under a cash-based plan paid upon delivery of significant improvement in ROIC. ROIC is an important indicator of sustainability and profitability for an airline group and is based on several financial metrics, including earnings and invested capital.

The CEO of Velocity Frequent Flyer participates in a separate LTI governed by the Velocity Frequent Flyer Board. No LTI was granted to the CEO of Velocity Frequent Flyer in the 2019 financial year.

Mr Scurrah was not awarded an LTI grant in financial year 2019 and, subject to shareholder approval, will be awarded his first LTI grant in financial year 2020 which will reflect his period of service from 25 March 2019. If shareholder approval is not obtained by 31 December 2019 for the proposed LTI grant to Mr Scurrah, an economically equivalent benefit will be provided in cash in accordance with the Virgin Australia applicable LTI plan in place for Virgin Australia Executives as at that date.

Remuneration report - audited (continued)

Executive remuneration overview (continued)

Long term incentives (LTI) (continued)

Mr Scurrah's target LTI opportunity will be 80% of fixed remuneration with a maximum LTI opportunity of 150% of fixed remuneration. LTI awards for Mr Scurrah will be allocated as 50% performance rights and 50% cash. The LTI performance and vesting period for these awards will be three years.

References to the CEO in the table below are to the LTI arrangements for the former CEO, Mr Borghetti.

How is performance measured?	For LTI awards granted in financial year 2019 performance will be measured based on annual ROIC performance over a three year period. ROIC is a profit efficiency ratio which measures how efficiently capital is used to generate earnings. It is an important indicator of long term sustainability and profitability in capital intensive industries such as aviation. ROIC links explicitly to the creation of sustainable earnings growth for long term shareholder return. ROIC is defined as underlying EBIT plus aircraft operating leases and notional depreciation on the capitalised value of aircraft operating leases as a percentage of average adjusted net debt and total equity. The Board is satisfied that the performance metric of ROIC for these awards is appropriate given it is based on several financial metrics, including earnings and invested capital, which are two of the most critical financial metrics for the Group at this time. The Board may exercise discretion to increase or decrease (including to nil) LTI outcomes to take into account the impacts of external market conditions outside the control of the CEO and Executives. The Board is cognisant of ensuring any exercise of discretion reinforces the Group's strategy, objectives and remuneration philosophy. The LTI plan does not permit retesting.
How much can the CEO and Executives earn?	The CEO is eligible to receive 100% of his fixed remuneration at target performance levels with the ability to earn up to 250% of fixed remuneration for outperformance. Executives are eligible to receive an average 31% of fixed remuneration at target with the ability to earn up to 150% of fixed remuneration for outperformance.
What is the vesting schedule for ROIC performance?	Whilst annual ROIC performance targets are commercially sensitive and are not disclosed, the vesting schedule for the 2019 grant is outlined in the table below. The Board is of the opinion that performance targets are sufficiently challenging for the CEO and Executives and deliver shareholder return over the medium and long term.

ROIC Performance	CEO Vesting	Executive Vesting
Below threshold	0%	0%
Threshold	75% of target	75% of target
Between threshold and target	Straight line between threshold and target	Straight line between threshold and target
Target	100% of target	100% of target
Between target and stretch	Straight line between target and stretch	Straight line between target and stretch
At or above stretch	250% of fixed remuneration	150% of fixed remuneration

When and how is it paid?	LTI awards granted in the financial year 2019 will be delivered in cash at the end of a three year performance period.
What happens if the CEO or an Executive leaves?	Upon cessation of the CEO's or an Executive's employment, all awards under the LTI plan are no longer payable. In certain circumstances, at the Board's discretion, the CEO or Executive may retain a pro rata portion of their award subject to the ongoing performance conditions under which they were originally granted.
What happens in a change of control?	The Board may resolve that a pro rata amount of any LTI award will become payable in respect of the performance period up to the change of control event.
Are there any forfeiture conditions?	The Board maintains absolute discretion to determine vesting.

Remuneration report - audited (continued)

Executive remuneration overview (continued)

Long term incentives (LTI) (continued)

The Company may from time to time make LTI grants to the CEO or Executives to secure their continued employment with the Company for specific periods of time. As reported in the 2018 Annual Report, on 28 February 2018 and in the context of the annual remuneration review, Mr Borghetti was granted an additional cash-settled long term incentive grant entitling him to one year's fixed remuneration payable in January 2020, provided that he has not given notice of termination of his employment which expires prior to 31 December 2019 or his employment has not been terminated for cause prior to 31 December 2019.

Cash-settled LTI performance awards

Details of cash-settled LTI grants are provided in the table below.

Grant	Grant Date	Participants	Performance Hurdle	Test Date
LTI 7	23-Nov-16	Executives(1)	ROIC	30-Jun-19
LTI 8	16-Nov-16	CEO(2)	ROIC	30-Jun-19
LTI 9	11-Sep-17	Executives(1)	ROIC	30-Jun-20
LTI 10	29-Sep-17	CEO(2)	ROIC	30-Jun-20
LTI 11	10-Sep-18	Executives(1)	ROIC	30-Jun-21
LTI 12	7-Sep-18	CEO(2)	ROIC	30-Jun-21

(1) Excludes CEO of Velocity Frequent Flyer.
(2) Awards granted to former CEO, Mr Borghetti.

LTI option awards granted in prior financial years

No LTI option awards remain on foot for the CEO or Executives.

Velocity Frequent Flyer Long Term Incentive granted in prior financial years

The CEO of Velocity Frequent Flyer participates in the Velocity Frequent Flyer LTI Plan granted in the 2016 financial year. The Velocity Frequent Flyer LTI Plan is a profit participation plan which requires participants to acquire a number of Co-Investment Participation Notes (CPNs) at face value. Participants are then issued additional rights referred to as Profit Participation Notes (PPNs).

Under the plan, participants benefit in upside business performance in the event Velocity Frequent Flyer investors (the Virgin Australia Group and Affinity Equity Partners) exit from their investment in Velocity Frequent Flyer. Participants will only be eligible to receive such a benefit from PPNs held if previously defined performance hurdles are met upon a pre-determined exit event. The benefit payable will depend on the number of PPNs issued to the participants and the value of the PPNs which is linked to pre-agreed hurdle rates in the disposal value earned by investors. In the event that a benefit becomes payable, the participant may be issued further rights in Velocity Frequent Flyer Holdco Pty Ltd or the Velocity Frequent Flyer Board may exercise its discretion to pay this entitlement in cash. This plan is subject to continued employment and good leaver provisions.

The LTI value at target for the CEO of Velocity Frequent Flyer is indeterminate due to the nature of PPNs with no predefined exit or vesting date.

The 2018 LTI benefit of the CEO of Velocity Frequent Flyer has been restated to correctly include historical distributions to equity holders in the estimation of the disposal value that might be earned by the investors when assessing the achievement of the performance hurdle rates. The effect of the restatement is to increase the LTI benefits and total remuneration by $54,947 in the year ended 30 June 2018. There has been no change to amounts paid to KMP. This adjustment is only to estimate the value that might be earned should a qualifying exit event occur.

Remuneration report - audited (continued)

Executive remuneration overview (continued)

Service agreements

Each Executive has a formal contract, or "service agreement" that is of a continuing nature (subject to termination conditions). The terms of the service agreements for the CEO and Executives are summarised below.

Position	Notice Period Employer(1)	Notice Period Employee
CEO (Mr J Borghetti)	12 months	6 months
CEO (Mr P Scurrah)	6 months	6 months
Executive	6 months	6 months

(1) The Group may terminate without notice in the event of any act which detrimentally affects the Group (such as dishonesty, fraud or serious or wilful misconduct in the discharge of his/her duties or unremedied, persistent, wilful or material breaches of the terms of his/her service agreement).

2019 financial year outcomes

Performance against short term incentive measures and outcomes

The following tables reflect the Group Scorecard outcomes for the 2019 financial year.

Group Scorecard Measure	Scorecard Weighting	2019 Scorecard Outcome
Underlying Group Profit Before Tax	25%	Did not meet
Better Business	15%	Exceeded
Group Free Cash	25%	Did not meet
Guest Satisfaction	10%	Did not meet
Safety	5%	Met
People and Culture	5%	Partial
Individual	15%	Varies
Total	**100%**	

The STI for financial year 2019 has an increased weighting on Group Free Cash and includes a performance gateway based on profit for any payments under the Group financial measures. This performance gateway was not achieved in financial year 2019.

The Board elected to award STI to the CEO and Executives in line with the outcomes of the Group Scorecard. The STI awarded to the CEO and Executives did not include any payment in respect of the Group financial measures as the performance gateway was not achieved, or the Guest Satisfaction measure which was also not achieved. These measures comprise 75% of the Group Scorecard weighting.

The Velocity Frequent Flyer Scorecard exceeded the performance gateway for the 2019 financial year and as a result, the CEO of Velocity Frequent Flyer was eligible to receive an STI payment for the 2019 financial year.

Long term incentive outcomes

The following table reflects the outcomes for LTI grants tested in the 2019 financial year.

Grant	Grant Date	Participants	Performance Hurdle	Test Date	% Achieved
LTI 7	23-Nov-16	Executives	ROIC	30-Jun-19	0%
LTI 8	16-Nov-16	CEO	ROIC	30-Jun-19	0%

The Board determined that the three year average ROIC targets were not met and no LTI payments were made in respect of these awards.

Remuneration report - audited (continued)

2019 financial year outcomes (continued)

Overview of company performance

The table below provides summary information on the Group's financial performance and the effect on shareholder wealth for the five years to 30 June 2019.

Financial Year	2019	2018	2017	2016	2015
Segment EBIT ($m) [(1)]	89.5	217.0	120.9	182.1	55.9
Underlying Group profit / (loss) before tax ($m) [(1)]	(71.2)	64.4	(46.9)	12.0	(63.2)
Net (loss) / profit attributable to owners ($m)	(349.1)	(681.0)	(220.3)	(260.9)	(110.8)
Share price ($)	0.17	0.22	0.16	0.21	0.43
Change in share price ($)	(0.05)	0.06	(0.05)	(0.22)	-
Dividends paid ($m)	-	-	-	-	-
EPS (cents)	(4.1)	(8.1)	(2.8)	(7.4)	(3.2)
ROIC (%) [(1)]	7.7	9.6	7.6	8.4	5.5

(1) Comparative numbers have been restated to recognise time value movement on cash flow hedges within Segment EBIT.

Actual remuneration outcomes for Executive KMP in the 2019 financial year

The actual remuneration earned by the CEO and other Executive KMP in the 2019 financial year is set out below. This provides shareholders with a view of the remuneration actually earned by the Executive KMP in relation to the 2019 financial year and includes the value of deferred STI and LTI that vested during the financial year. This differs from the remuneration details prepared in accordance with statutory obligation and accounting standards.

Name	Fixed Remuneration[(1)]	STI Cash[(2)]	STI Deferred[(3)]	LTI Vested[(4)]	Total Actual Remuneration	STI Forfeited in 2019[(5)]
Mr P Scurrah[(6)(7)]	349,041	39,813	-	N/A	388,854	89%
Mr J Borghetti AO[(6)(8)]	1,431,781	179,063	268,950	-	1,879,794	92%
Mr G Smith	750,000	85,313	178,220	-	1,013,533	89%
Ms M McArthur[(9)]	668,425	71,777	144,306	-	884,508	89%
Mr K Schuster	550,000	381,404	-	-	931,404	0%
Mr R Sharp[(6)(10)]	688,219	60,577	190,104	-	938,900	92%

(1) Includes superannuation.
(2) Reflects the value of the 2019 STI to be paid in September/October 2019.
(3) Reflects the value of 2018 deferred cash STI that vested 30 June 2019.
(4) The cash LTI granted in the 2017 financial year and tested 30 June 2019 did not meet the performance hurdle.
(5) Reflects the % of the 2019 STI (including stretch amount) forfeited for not achieving performance measures.
(6) Remuneration disclosed reflects the portion of financial year 2019 for which the Executive served as KMP. Details of termination benefits are provided in the statutory table on page 35.
(7) Mr P Scurrah commenced in role 25 March 2019.
(8) Mr J Borghetti ceased in role 25 March 2019.
(9) Ms M McArthur is in receipt of a temporary increase in her fixed remuneration for the period she is in the role of Acting Chief Commercial Officer, Virgin Australia Airlines in addition to her substantive role as CEO of Tigerair Australia.
(10) Mr R Sharp ceased in role 10 May 2019.

Remuneration report - audited (continued)

Non-Executive Director remuneration

Virgin Australia Holdings Limited

Independent Non-Executive Directors receive a base fee and where an Independent Non-Executive Director participates in a Board Committee, an additional fee is payable in recognition of the increased workload and additional responsibilities. Each Committee Chairman receives a premium over Committee Member fees reflecting the relative role responsibilities and expected time commitment. The Chairman of the Board is not eligible to receive additional fees for Committee participation.

The maximum aggregate fee pool available to Non-Executive Directors is $2.0 million per annum (excluding industry standard travel entitlements) as approved by shareholders at the Group's Annual General Meeting in November 2017.

The annual fees currently paid to Independent Non-Executive Directors for Board and Committee membership are set out in the table below and are inclusive of superannuation.

	Board	Audit and Risk Management Committee	Remuneration Committee	Nomination Committee	Safety and Operational Risk Review Committee
Chairman	$300,000	$40,000	$25,000	Nil	$25,000
Members	$140,000	$10,000	$10,000	Nil (1)	$10,000

(1) Members of the Nomination Committee were paid $10,000 per annum (inclusive of superannuation) until May 2019.

Non-Executive Directors do not receive incentive payments and are not eligible to participate in any Executive or employee share acquisition plans established by the Group. Non-Executive Directors are not entitled to any termination benefits.

Virgin Australia International Holdings Pty Ltd

Members of the Board of Directors of Virgin Australia International Holdings Pty Ltd (VAIH), which under Accounting Standards is a controlled entity of the Company, receive an annual fee of $75,000. The Chairman of VAIH receives an annual fee of $140,000.

Mr Borghetti, in his capacity as a Director of the VAIH Board, elected to receive 50% of the director fee to which he was entitled during the year, $27,520. Mr Scurrah does not receive fees in his capacity as a Director of the VAIH Board.

Travel entitlements

Independent Non-Executive Directors receive annual travel entitlements. Flights are not cumulative and lapse if they are not used during the financial year in which the entitlement exists. The accounting value of the travel benefit is captured in the remuneration table as a non-monetary benefit for travel during the relevant financial year.

Remuneration report - audited (continued)

Statutory tables

Non-Executive Directors

Details of the remuneration of Non-Executive Directors for the financial years ended 30 June 2019 and 30 June 2018 are set out in this section.

		Cash salary and fees	Non-monetary benefits[1]	Superannuation benefits	Total compensation
	Year	$'000	$'000	$'000	$'000
Non-Executive Directors[2]					
Ms E Bryan AM[3]	**2019**	**348**	**-**	**27**	**375**
	2018	348	2	27	377
Mr T Bourne	**2019**	**169**	**17**	**16**	**202**
	2018	78	-	7	85
Mr M Chellew	**2019**	**160**	**16**	**15**	**191**
	2018	75	2	7	84
Mr K Dean[4]	**2019**	**241**	**6**	**20**	**267**
	2018	174	24	17	215
Air Chief Marshall Sir A Houston (Ret'd)	**2019**	**81**	**13**	**18**	**112**
(commenced 12 December 2018)	2018	-	-	-	-
Ms J Swales	**2019**	**13**	**-**	**1**	**14**
(commenced 29 May 2019)	2018	-	-	-	-
Mr D Baxby	**2019**	**-**	**-**	**-**	**-**
(ceased 10 August 2017)	2018	20	19	2	41
Mr R Thomas	**2019**	**-**	**-**	**-**	**-**
(ceased 28 February 2018)	2018	97	2	9	108
The Hon M Vaile AO	**2019**	**70**	**13**	**7**	**90**
(ceased 12 December 2018)	2018	152	15	15	182
Ms S Mostyn	**2019**	**133**	**7**	**13**	**153**
(ceased 29 May 2019)	2018	155	-	15	170

(1) Non-monetary benefits relate to travel entitlements as detailed on page 33.

(2) Directors not included in the table above are all shareholder nominated Directors and did not receive fees in the 2018 or 2019 financial years.

(3) Ms E Bryan's compensation includes Director fees of $68,493 (2018: $68,493) and superannuation of $6,507 (2018: $6,507) relating to her services provided to VAIH in her capacity as Director.

(4) Mr K Dean's compensation includes Director fees of $66,008 (2018: $nil) and superannuation of $5,125 (2018: $nil) relating to his services provided to Velocity Frequent Flyer in his capacity as Director from 24 October 2018 to 24 March 2019 and Chairman from 25 March 2019.

Remuneration report - audited (continued)

Statutory tables (continued)

Executive key management personnel

Details of the remuneration of Executive KMP for the financial years ended 30 June 2019 and 30 June 2018 in line with statutory requirements are set out in this section.

		Short term benefits			Long term benefits					Share based payments		
		Cash salary and fees	Cash settled STI	Deferred cash settled STI	Non-monetary benefits[1]	Cash settled LTI	Other long term benefits[2]	Superannuation benefits	Termination benefits[3]	Cash settled LTI (2018 restated)[4]	Total	Percentage performance related
	Year	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	% of total
Executive Director												
Mr P Scurrah (commenced 25 March 2019)	**2019**	**375**	**40**	**9**	**1**	**-**	**-**	**7**	**-**	**-**	**432**	**11**
	2018	-	-	-	-	-	-	-	-	-	-	-
Mr J Borghetti AO[5] (ceased 25 March 2019)	**2019**	**1,416**	**179**	**134**	**16**	**(1,173)**	**135**	**15**	**2,497**	**-**	**3,219**	**(27)**
	2018	1,930	1,269	533	32	359	19	20	-	-	4,162	52
Other KMP												
Mr G Smith	**2019**	**725**	**85**	**107**	**25**	**5**	**-**	**25**	**-**	**-**	**972**	**20**
	2018	662	416	230	58	16	-	25	-	-	1,407	47
Ms M McArthur	**2019**	**656**	**72**	**88**	**81**	**7**	**-**	**25**	**-**	**-**	**929**	**18**
	2018	551	337	182	90	1	-	24	-	-	1,185	44
Mr K Schuster	**2019**	**551**	**381**	**82**	**34**	**-**	**-**	**21**	**-**	**8,799**	**9,868**	**94**
	2018	546	-	-	41	-	25	20	-	(252)	380	(66)
Mr R Sharp[6] (ceased 10 May 2019)	**2019**	**671**	**61**	**121**	**12**	**(201)**	**8**	**18**	**565**	**-**	**1,255**	**(2)**
	2018	750	444	205	169	15	59	26	-	-	1,668	40

(1) Non-monetary benefits include travel entitlements and relocation benefits. Travel benefits will remain available to former executives after the date on which they cease to be KMP until the cessation of their employment.

(2) Other long term benefits include movements in annual leave where the accrual was greater than 20 days.

(3) The relevant accounting standard requires that certain payments be treated as termination benefits, although not so regarded for the purposes of Division 2 Part 2d.2 of the Corporations Act. The Group confirms that benefits provided are compliant with the Corporations Act. Termination benefits for Mr Borghetti include payment in respect of the portion of his notice which relates to the period after the date on which he ceased to be CEO and a portion of the cash-settled LTI awarded to him on 28 February 2018 (see footnote 5 below).

(4) The cash settled LTI for Mr K Schuster represents the change during the financial year in the estimated value of the amount Mr Schuster may earn should a qualifying exit event occur. The figure for financial year 2018 has been restated. Refer to page 30 for details.

(5) Cash salary and fees for Mr Borghetti include Director fees of $27,520 (2018: $37,500) relating to services provided in his capacity as Director of VAIH. Cash settled LTI for Mr Borghetti includes the proportion of the cash settled LTI awarded to him on 28 February 2018 relating to the period for which he served as CEO during the financial year 2019. The balance of this award is included in the value of termination benefits. Mr Borghetti will also retain lifetime membership of the airline's lounge facilities, the value of which is indeterminant.

(6) Deferred cash settled STI for Mr R Sharp includes the full amount of the deferred portion of his financial year 2019 STI award.

Remuneration report - audited (continued)

Equity and deferred cash tables

LTI – Cash settled performance plan compensation granted during the 2019 financial year and previous plans

Grants under the cash settled performance plan made during the 2019 financial year and previous grants yet to vest are detailed below.

During the reporting period, $0 (2018: $0) awards were paid as compensation. Details of awards provided as LTI compensation, vested and forfeited during the period in which each individual was considered to be KMP, are detailed in the table below. Nil awards lapsed and $4,535,000 were forfeited during the financial year. The minimum payment under each of the LTI plans is nil.

			Value of cash settled LTI								
2019	Date granted	Performance plan	Balance at beginning of year $'000	Allocated in year $'000	Vested in year $'000	Forfeited in year $'000	Balance at end of year $'000	Forfeited in year %	Financial year in which grant vests	Remaining value to be allocated in future financial years $'000	Maximum potential future allocation available for outperformance $'000
Executive Director											
Mr P Scurrah (commenced 25 March 2019)	-	-	-	-	-	-	-	-	-	-	-
Mr J Borghetti AO (ceased 25 March 2019)	15-Nov-16	LTI 8	1,300	650	-	(1,950)	-	100	30-Jun-19	-	-
	29-Sep-17	LTI 10	650	650	-	(1,300)	-	100	30-Jun-20	-	-
	7-Sep-18	LTI 12	-	477	-	(477)	-	100	30-Jun-21	-	-
Other KMP											
Mr G Smith	23-Nov-16	LTI 7	140	70	-	(210)	-	100	30-Jun-19	-	-
	11-Sep-17	LTI 9	70	70	-	-	140	-	30-Jun-20	70	910
	10-Sep-18	LTI 11	-	75	-	-	75	-	30-Jun-21	150	1,050
Ms M McArthur	23-Nov-16	LTI 7	126	64	-	(190)	-	100	30-Jun-19	-	-
	11-Sep-17	LTI 9	64	64	-	-	128	-	30-Jun-20	65	731
	10-Sep-18	LTI 11	-	69	-	-	69	-	30-Jun-21	138	854
Mr R Sharp (ceased 10 May 2019)	23-Nov-16	LTI 7	124	61	-	(185)	-	100	30-Jun-19	-	-
	11-Sep-17	LTI 9	77	77	-	(154)	-	100	30-Jun-20	-	-
	10-Sep-18	LTI 11	-	69	-	(69)	-	100	30-Jun-21	-	-

Options and rights granted as compensation

There were no new options or rights over ordinary shares in Virgin Australia Holdings Limited granted as compensation during the reporting period.

On 14 December 2015, 5,000 CPNs with a fair value net of face value paid of $0.57 per right and 40,000 PPNs with a fair value of $36.03 per right were issued to the CEO of Velocity Frequent Flyer. The CPNs and PPNs provide a right to receive an economic benefit (which can be delivered at the discretion of the issuing company in a number of ways including in the form of cash or equity instruments). The CPNs and PPNs are classified as cash settled share based payments. As a result, the fair value of the liability is remeasured each reporting date. No rights have vested or lapsed subsequent to their issue. The exercise price per CPN and PPN is nil.

Remuneration report - audited (continued)

Additional information

Movements in shares

The movement during the reporting period in the number of ordinary shares in Virgin Australia Holdings Limited held directly, indirectly or beneficially, by each KMP including their related parties, is as follows:

2019[1]	Balance at 1 July 2018 '000	Commenced as KMP '000	Received on exercise of performance rights/options '000	Purchases '000	Sales '000	Ceased as KMP '000	Balance at 30 June 2019 '000
Directors of Virgin Australia Holdings Limited							
Ms E Bryan AM	227	-	-	-	-	-	227
Mr J Borghetti AO (ceased 25 March 2019)	9,941	-	-	-	-	(9,941)	N/A
Mr T Bourne	100	-	-	-	-	-	100
Mr M Chellew	-	-	-	100	-	-	100
Mr K Dean	40	-	-	-	-	-	40
The Hon M Vaile AO (ceased 12 December 2018)	60	-	-	-	-	(60)	N/A
Ms S Mostyn (ceased 29 May 2019)	250	-	-	-	-	(250)	N/A
Other KMP							
Ms M McArthur	212	-	-	-	-	-	212
Mr G Smith	121	-	-	-	-	-	121

(1) No other Directors or Executives held shares in the Company in the current or prior period.

Insurance of officers

During the financial year, the Group paid premiums in respect of Directors' and officers' liability insurance contracts which cover former Directors and officers, including Executive officers of the Company and Directors, Executive officers and secretaries of its controlled entities. The Directors have not included the amount of the premium paid in respect of the Directors' and officers' liability insurance contracts as such disclosure is prohibited under the terms of the insurance contract.

Loans to KMP and their related parties

For the 2019 financial year, there were no loans made, guaranteed, secured or outstanding in relation to KMP or their related parties (2018: nil).

Other transactions with KMP

A number of KMP hold positions in other subsidiaries of the parent entity that result in them having control or significant influence over the financial and operating policies of those entities. A number of these entities transacted with the Group in the reporting period. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-KMP related entities on an arm's-length basis. Refer to note G4 to the consolidated financial statements.

Share options

Unissued shares under option

As at the date of this report, there are no unissued shares of the Company under option.

Shares issued as a result of the exercise of options

No new shares were issued as the result of the exercise of options during the 2019 financial year.

Environmental regulation

The Group is subject to environmental regulations under federal, state, territory and international jurisdictions.

The Group is committed to environmental sustainability and meeting all of its regulatory obligations. These objectives are managed through the following elements:

- Regular environmental risk and compliance reporting to management, the Board and external stakeholders;
- Accountability assigned for environmental performance and compliance to relevant executives across the Group;
- The use of robust management systems to identify environmental issues/risks, implement management programs and monitor the effectiveness of actions; and
- Engagement with regulators to maintain oversight and supporting the evolution of regulatory obligations.

Based on the information provided and enquiries made the Board is not aware of any material non-compliances during this reporting period.

Indemnification and insurance of officers and auditors

The Company has agreed to indemnify the directors and officers of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as a director or an officer of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith.

The Company has directors' and officers' liability insurance contracts in place, for all current and former officers of the Company (including directors and the company secretary). The directors have not included the details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability insurance contracts, as such disclosure is prohibited under the terms of the insurance contract.

Non-audit services

During the year ended 30 June 2019, KPMG, the Group's auditor, performed certain other services in addition to its statutory duties as auditor.

The directors have considered the non-audit services provided during the year ended 30 June 2019 and are satisfied that the provision of those non-audit services is compatible with, and did not compromise, the general standard of independence for auditors imposed by the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the Audit and Risk Management Committee to ensure that they do not impact the impartiality and objectivity of the auditor; and
- none of the non-audit services provided undermined the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amounts paid or payable to KPMG and its related practices for audit and non-audit services provided, during the year ended 30 June 2019, are set out in note G5 to the consolidated financial statements (located on page 98 of this document).

The lead auditor's independence declaration, as required under section 307C of the *Corporations Act 2001*, is set out on page 40 and forms part of the Directors' report.

Rounding

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

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

Elizabeth Bryan
Director

Paul Scurrah
Director

Sydney

This report is made on 17 September 2019

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

To: The directors of Virgin Australia Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Virgin Australia Holdings Limited for the financial year ended 30 June 2019 there have been:

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

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

John Wigglesworth
Partner

Sydney, 17 September 2019

Financial Report

For the year ended 30 June 2019

This financial report covers the Virgin Australia Holdings Limited Group, consisting of Virgin Australia Holdings Limited ACN 100 686 226 and its controlled entities. The financial report is presented in Australian dollars.

Consolidated financial statements

For the year ended 30 June 2019

Contents

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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	B3	**5,317.7**	4,981.7
Freight revenue	B3	**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	B4	**(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	B4	**(152.6)**	(120.8)
Impairment losses on other assets	B4	**-**	(47.8)
Onerous contract expenses	C6	**(47.4)**	(58.5)
Other expenses from ordinary activities	B4	**(592.9)**	(512.9)
Depreciation and amortisation		**(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	F2	**-**	3.5
Loss before net finance costs and tax		**(134.6)**	(48.8)
Finance income		**28.5**	19.2
Finance costs	B4	**(189.2)**	(171.8)
Net finance costs		**(160.7)**	(152.6)
Loss before tax		**(295.3)**	(201.4)
Income tax expense	B5	**(20.1)**	(451.9)
Loss		**(315.4)**	(653.3)
Attributable to:			
Owners of the Company		**(349.1)**	(681.0)
Non-controlling interests	F4	**33.7**	27.7
		(315.4)	(653.3)

Earnings per share		**Cents**	**Cents**
Basic earnings per share	B2	**(4.1)**	(8.1)
Diluted earnings per share	B2	**(4.1)**	(8.1)

(1) The comparative has been restated to be consistent with the current financial period revenue presentation which separately presents freight and loyalty program revenue.

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

	Note	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	F5	**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	E2	**1,740.0**	1,415.5
Receivables	C1	**268.7**	281.6
Inventories	C2	**51.3**	47.6
Derivative financial instruments	E7	**71.5**	220.0
Other financial assets	C3	**31.2**	12.1
Other	C4	**2.6**	2.7
Total current assets		**2,165.3**	1,979.5
Non-current assets			
Receivables	C1	**182.6**	191.6
Derivative financial instruments	E7	**13.6**	64.0
Other financial assets	C3	**255.7**	284.2
Investment accounted for using the equity method	F2	**-**	8.2
Deferred tax assets	B5	**57.8**	-
Property, plant and equipment	D2	**3,202.1**	3,031.0
Intangible assets	D3	**580.7**	617.0
Other	C4	**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	C5	**929.1**	807.5
Interest-bearing liabilities	E3	**771.9**	295.1
Derivative financial instruments	E7	**14.8**	6.6
Provisions	C6	**255.5**	269.0
Unearned revenue	C7	**1,262.7**	1,142.1
Other		**2.9**	3.6
Total current liabilities		**3,236.9**	2,523.9
Non-current liabilities			
Payables	C5	**2.7**	5.6
Interest-bearing liabilities	E3	**2,256.9**	2,273.0
Derivative financial instruments	E7	**2.8**	0.2
Provisions	C6	**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	E4	**2,238.5**	2,238.9
Reserves	E6	**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	F4	**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)	A(e)	-	-	-	-	-	-	(1.2)	(1.2)	-	(1.2)
Adjustment on initial application of AASB 15 (net of tax)	A(e)	-	-	-	-	-	-	(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	E4	(0.4)	-	-	-	-	-	-	(0.4)	-	(0.4)
Income tax reserve[2]		-	-	-	-	-	(22.0)	-	(22.0)	22.0	-
Equity distributions	F4	-	-	-	-	-	-	-	-	(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

	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 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 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	E4	(4.9)	-	-	-	-	-	-	(4.9)	-	(4.9)
Income tax reserve[2]		-	-	-	-	-	(16.9)	-	(16.9)	16.9	-
Equity distributions	F4	-	-	-	-	-	-	-	-	(47.1)	(47.1)
Share-based payment transactions	E4	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

	Note	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	B6	**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	D1	**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	E4	**(0.7)**	(5.3)
Equity distributions paid to non-controlling interests	F4	**(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	E2	**1,740.0**	1,415.5

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

A. Basis of preparation

This section sets out the basis upon which the consolidated financial statements have been prepared as a whole.

The consolidated financial statements were authorised for issue by the Board of Directors (Board) on 17 September 2019.

(a) Reporting entity

Virgin Australia Holdings Limited (VAH) (the Company) is a for-profit company incorporated and domiciled in Australia. It is primarily involved in the airline industry, both domestic and international. The consolidated financial statements of the Company as at and for the year ended 30 June 2019 comprise the Company and its subsidiaries (the Group), and the Group's interests in associates.

(b) Basis of accounting and statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

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

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

(c) Net current liability position

The Group's current liabilities 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 consolidated financial statements have 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), which includes an unrestricted cash balance of $1,330.3 million (2018: $1,000.8 million), ahead of a major bond maturity in November 2019 totalling US$400.0m (A$569.8m). 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 secured debt) 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. Capital management is detailed in note E1. Management of liquidity risk is detailed in note E7.

As set out in note A(f), 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 amortisation 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) Accounting policies

Accounting policies have been applied consistently by all the Group's entities and to all periods presented in the consolidated financial statements, with the exception of those described in note A(e). The following accounting policies apply to the consolidated financial statements as a whole. Specific significant accounting policies are described in the note to which they relate.

Foreign currency transactions and balances

Foreign currency transactions are initially recorded in the functional currency at the spot rate at the date the transaction first qualifies for recognition. Subsequently, foreign currency monetary balances are translated to the functional currency at the spot rates of exchange on the reporting date and the resultant exchange differences are recognised in profit or loss. Non-monetary balances that are measured in terms of historical cost are not re-translated. Non-monetary balances that are measured at fair value are translated at the date the fair value was determined with the gain or loss treated in line with the gain or loss recognised on changes to the fair value of the item.

Foreign operations

The Group has a number of foreign operations which operate in an economic environment in which the predominant currency is not Australian dollars and which apply a functional currency other than Australian dollars. The assets and liabilities of these operations are translated from their functional currency to Australian dollars at the exchange rates at the reporting dates. The income and expenses are translated to Australian dollars at the exchange rate at the date of the transaction or the average exchange rate for the month if that is a reasonable approximation of the exchange rates on the transaction dates for that month. All resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. When an operation is disposed of, the cumulative amount in the foreign currency translation reserve relating to that operation is reclassified to profit or loss. Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur are reclassified to other comprehensive income in the consolidated financial statements. These exchange differences are reclassified to profit or loss on disposal of the foreign operation.

A. Basis of preparation (continued)

(e) Change in significant accounting policy

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

AASB 15 replaced 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 adopted AASB 15 from 1 July 2018 with the cumulative effect of initially applying the standard recognised as an adjustment to retained earnings at 1 July 2018. Accordingly, the information for the comparative period has not been restated. The comparative information is presented, as previously reported, under AASB 118, AASB 111 and Interpretation 13. A description of the key accounting policies applied prior to and after adoption of AASB 15 follows.

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 opening 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)

A. Basis of preparation (continued)

(e) Change in significant accounting policy (continued)

AASB 15 *Revenue from Contracts with Customers* (AASB 15) (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	Without adoption of 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	Without adoption of 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(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.

A. Basis of preparation (continued)

(f) 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. As the lease liability is denominated in US dollars, it will be translated to the Group's functional currency of Australian dollars at the spot rates of exchange at each reporting date and the resultant exchange difference will be recognised in profit or loss. There will be no changes to the Group's underlying foreign currency exposure.

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 ROU asset created under AASB 16 will be accounted for at the separately identifiable component level and depreciated over the lesser of the lease term or the component's useful life. Any qualifying maintenance events which represent separate ROU asset components will be capitalised and depreciated over the lesser of the remaining lease term or the component's useful life.

In assessing the impact of AASB 16, the Group also considered the interaction of the new standard with the Group's existing maintenance accounting policy, which is to capitalise and depreciate maintenance on leased assets that occurs during the lease term. Following detailed analysis of the components of ROU assets and the analysis of restoration and return obligations associated with these components, as required by AASB 16, an increase in the maintenance provision has been recognised as part of the transition. This provision reflects maintenance events that would not result in an incremental future economic benefit to the Group.

The IFRIC Interpretations Committee has released a tentative agenda decision in relation to leases that are cancellable or renewable. The decision may affect the determination of the lease term and useful lives of any related non-removable leasehold improvements. It may also impact the treatment of expired leases upon adoption of AASB 16. The Group will complete its assessment of the impact of the decision once it is finalised by the IFRIC Interpretations Committee. 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	(90 - 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.

The Group has not elected to apply the practical expedient to 'grandfather' its previous assessment of which transactions are leases.

A. Basis of preparation (continued)

(g) Critical accounting estimates and judgements

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

Key judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are described in the following notes:

B3 - Revenue – expiry of tickets which have passed their scheduled flight date and the estimation of the stand-alone selling price of the obligation to provide awards to members of the Velocity Frequent Flyer program

B5 - Taxation – recoverability of deferred tax assets

C6 - Provisions – maintenance provisions and onerous contracts

C7 - Unearned revenue – unearned passenger and loyalty program revenue

D4 - Impairment testing – determination of cash-generating units and estimation of recoverable amount

E8 - Fair value measurements - estimation of unobservable inputs

F3 - Controlled entities – basis of control

B. Results

This section sets out the results and performance of the Group.

B1. 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.

B1. Operating segments (continued)

(a) Reportable segments

2019	Virgin Australia Domestic $m	Virgin Australia International $m	Velocity $m	Tigerair Australia $m	Corporate and Eliminations $m	Consolidated $m
Revenue and income[1]						
External revenue from contracts with customers	3,669.2	1,250.2	344.3	563.4	-	5,827.1
Other revenue and income	-	-	-	-	-	-
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[2]	(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[2]						(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) Loyalty program marketing revenue is recognised in the Velocity segment. The inter-segment portion of this is eliminated on consolidation. Revenue related to the redemption of points by a customer for Virgin Australia Domestic or Virgin Australia International flights is recognised as inter-segment revenue within these segments.

(2) 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.

B1. Operating segments (continued)

(a) Reportable 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[2]						
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. Segment revenue and income of $18.0 million has been reclassified to Virgin Australia Domestic from Corporate and Eliminations. The comparative has also been restated to recognise time value movement on cash flow hedges of $42.5 million within segment EBIT. These restatements provide consistency with the current period presentation.

(2) Loyalty program marketing revenue is recognised in the Velocity segment. The inter-segment portion of this is eliminated on consolidation. Revenue related to the redemption of points by a customer for Virgin Australia Domestic or Virgin Australia International flights is recognised as inter-segment revenue within these segments.

B1. Operating segments (continued)

(b) Geographical segments

Passenger and other services revenue is allocated proportionately to the area in which point of sale occurs. Revenue from the Group's loyalty program is attributed to the Australian geographic region. Certain other revenue amounts are not allocated to a geographical region as it is impractical to do so.

	Australia $m	New Zealand $m	United States $m	Europe $m	Other $m	Unallocated $m	Consolidated $m
External revenue and income							
2019	**4,909.0**	**187.3**	**278.5**	**154.0**	**221.2**	**77.1**	**5,827.1**
2018	4,610.5	162.9	247.8	132.3	190.4	73.4	5,417.3

For the financial years ended 30 June 2019 and 30 June 2018, the principal assets of the Group comprised the aircraft fleet. These assets are used flexibly across the Group's worldwide route network. Accordingly, there is no suitable basis for allocating such assets and the related liabilities between geographic areas.

B2. Earnings per share

Basic earnings per share (EPS) is calculated by dividing the profit or loss attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS adjusts the basic EPS for the effects of any instruments that could potentially be converted into ordinary shares. Potential ordinary shares shall be treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations. The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options and performance rights is based on quoted market prices for the period that the options and performance rights were outstanding. At 30 June 2019, no options or performance rights (2018: nil) were excluded from the diluted weighted average number of ordinary shares calculation due to their anti-dilutive effect.

	2019 $m	2018 $m
Loss attributable to ordinary shareholders	**(349.1)**	(681.0)
Basic earnings	**(349.1)**	(681.0)
Diluted earnings	**(349.1)**	(681.0)

	2019 Number (m)	2018 Number (m)
Weighted average number of ordinary shares - basic	**8,445.2**	8,452.1
Effect of share options and performance rights on issue	**-**	-
Weighted average number of ordinary shares and potential ordinary shares - diluted	**8,445.2**	8,452.1

B3. Revenue

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer. Refer to note C7 for a description of the Group's policy in relation to unearned revenue.

Airline passenger revenue

Airline passenger revenue comprises revenue from passenger ticket sales including the provision of ancillary flight benefits, such as baggage and change fees, which are not considered to be distinct from the passenger ticket. Airline passenger and ancillary revenue is recognised in profit or loss when carriage is performed, net of sales discounts, certain commissions and Goods and Services Tax.

Airline passenger revenue is generally received in advance of carriage and is deferred to the consolidated statement of financial position as unearned revenue until the revenue recognition criteria are satisfied.

The Group is a party to various alliance arrangements. Revenue under these arrangements is recognised in profit or loss when the Group performs the carriage or otherwise fulfils all relevant contractual commitments.

The incremental costs in relation to ticket sales is recognised as an expense when incurred as the costs would otherwise have to be recognised within 12 months to align with the recognition of revenue on the underlying passenger ticket.

Members of the Velocity Frequent Flyer program accumulate loyalty points by travelling on qualifying airline services. The transaction price related to ticket sales is proportionately allocated to the obligation to provide awards to members and to the ticket sales, based on their relative stand-alone selling prices. The portion allocated to the obligation to provide awards to members is deferred to the consolidated statement of financial position as unearned loyalty program revenue until the revenue recognition criteria are satisfied.

Loyalty program revenue

The Group receives participation fee revenue from participation partners for the rights to have loyalty points allocated to members of the Velocity Frequent Flyer program. This results in an obligation of the Group to provide awards to members when these points are redeemed.

Loyalty program revenue is comprised of two performance obligations. The stand-alone selling price of the obligation to provide awards to members is calculated using expected redemption costs plus a reasonable profit margin and adjusted for the proportion of points not expected to be redeemed. It is deferred to the consolidated statement of financial position as unearned revenue. The residual amount, which represents marketing services, is recognised when the points are issued and the Group has a right to invoice the participation partner. This occurs as the service is provided, which occurs over time. Consideration is typically received within normal credit terms, following the issuance of points.

The consideration is generally received subsequent to the issue of points based on the Group's normal credit terms.

Freight revenue

Freight revenue comprises revenue from freight carried on domestic and international flights. Revenue is recognised in profit or loss when carriage of the freight is performed, net of sales discounts, certain commissions and Goods and Services Tax.

Freight services are generally paid for subsequent to carriage being performed, based on the Group's normal credit terms.

Principal and agent considerations

The Group considers whether it is a principal or agent in relation to services by considering whether it controls the service prior to that service being transferred to the customer. The Group acts as an agent when collecting revenue in relation to airline passenger services provided by other carriers. Commissions received from other carriers are paid subsequent to carriage being performed, in accordance with normal industry credit terms.

B4. Expenses

This section sets out certain specific expenses included within the following profit or loss line items.

(a) Aircraft operating lease expenses and other expenses from ordinary activities

	2019 $m	2018 $m
Aircraft operating lease rentals	**383.1**	389.0
Other operating lease rentals[1]	**131.0**	129.3
Total operating lease rentals	**514.1**	518.3

(1) Other operating lease rentals includes $32.0 million (2018: $32.6 million) of contingent rents.

Other expenses from ordinary activities includes costs for aircraft, crew, maintenance and insurance in relation to wet leases of $50.6 million (2018: $41.9 million).

(b) Labour and staff related expenses

The Group contributes to several defined contribution superannuation plans. A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Such contributions are charged to profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in future payments is available. The amount recognised as an expense for the year ended 30 June 2019 was $87.0 million (2018: $80.7 million).

(c) Net finance costs

Finance income is recognised in profit or loss as it accrues, using the effective interest rate method.

Finance costs comprise interest paid or payable on borrowings calculated using the effective interest rate method, amortisation of borrowing costs and unwinding of the discount on provisions and other liabilities.

Finance costs that relate to qualifying assets are capitalised to the cost of the assets. If funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the finance costs capitalised are those incurred in relation to that borrowing, net of any interest earned on those borrowings. If funds are borrowed generally, finance costs are capitalised using a weighted average capitalisation rate. Finance costs were capitalised at a weighted average rate of 8.10% (2018: 8.08%).

	2019 $m	2018 $m
Interest and finance charges	**187.1**	163.0
Unwinding of discount on provisions	**10.8**	13.9
Less: interest paid and capitalised on qualifying assets	**(8.7)**	(5.1)
Finance costs expensed	**189.2**	171.8

(d) Impairment losses on other assets and cash-generating units

Impairment losses were recognised during the current financial year to reduce the carrying amounts of the Tigerair Australia cash-generating unit by $105.0 million (2018: nil) and the Virgin Australia International cash-generating unit by $47.6 million (2018: $120.8 million) to their recoverable amounts. Refer to note D4 for further information on impairment testing.

Impairment losses of $nil (2018: $47.8 million) were recognised during the current financial year on assets associated with onerous contracts and on other obsolete assets. Refer to note C6 for further information on the onerous contract provision.

B5. Taxation

Tax consolidation

In prior financial years, the Group recognised two separate tax consolidated groups (TCGs), being VAH and its Australian controlled entities and Tigerair Australia. During the current financial year, Tigerair Australia joined the VAH TCG, with effect from the date the Group acquired 100 per cent ownership of Tigerair. The gross tax losses incurred by Tigerair prior to the joining date of $271.7 million, which had not been recognised as an asset, have been cancelled and will no longer be available for offset against future taxable income.

The head entity and each of the subsidiaries in the VAH TCG enter into tax funding and tax sharing arrangements. Under the terms of the agreements, the subsidiaries have agreed to pay (or receive) an amount to (or from) the head entity, based on the current tax liability or current tax asset of the relevant entity.

Each entity in the TCG measures its current and deferred taxes as if it is a separate taxable entity. In addition to its own current and deferred tax amounts, the head entity in the tax consolidated group recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the TCG, subject to the satisfaction of the recognition requirements in AASB 112 *Income Taxes*.

Income tax expense or benefit

Income tax expense or benefit comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates and tax laws enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax is recognised for all taxable temporary differences arising from the difference between the carrying amount of assets and liabilities and their corresponding tax base. It is measured using tax rates and tax laws that are expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted at the reporting date.

Deferred tax is not recognised for temporary differences:

- on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- relating to investments in subsidiaries and associates, and interests in joint arrangements, where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future; or
- arising on initial recognition of goodwill.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which they 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. In the current financial year, the Group's net deferred tax asset increased 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 assessing the recoverability of the resultant deferred tax asset at 30 June 2019 and, accordingly, 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, based on detailed financial estimates and sensitivity analyses presented to the Board, including consideration of past performance, macroeconomic factors, current industry trends, and long term industry analysis of the key Australian domestic, Asian and US markets.

At 30 June 2019, the Group has $313.0 million (2018: $753.7 million) of gross tax losses carried forward on the consolidated statement of financial position which have no expiry date. A deferred tax asset of $93.9 million (2018: $226.1 million) has been recognised in respect of these losses.

As at 30 June 2019, deferred tax assets of $639.5 million (2018: $595.8 million) have not been recognised as there is insufficient convincing evidence that future taxable profit will be available against which these tax losses can be realised.

Australian tax losses are able to be carried forward indefinitely subject to the satisfaction of continuity of ownership or same business tests under the Australian tax law. Unrecognised losses are able to be recognised and used in the future as taxable profits are generated. While the view of management is that all the VAH TCG tax losses remain available to be carried forward and used to offset future taxable income, it is noted that the same business test is a subjective, complex test and the VAH TCG’s reliance on this test has not been formally tested with the Australian Taxation Office.

B5. Taxation (continued)

(a) Reconciliation of income tax expense

	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)
Represented by:		
Deferred tax expense	**(20.0)**	(448.1)
Over provision in prior years	**(0.1)**	(3.8)
Income tax expense	**(20.1)**	(451.9)

(b) Deferred tax

The composition of the Group's net deferred tax asset recognised in the consolidated statement of financial position and the net deferred tax (expense)/benefit recognised in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income is as follows:

	Consolidated statement of financial position		Consolidated statement of profit or loss or retained earnings(1)		Consolidated statement of profit or loss and other comprehensive income	
	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m
Deferred tax assets						
Provisions	**179.1**	162.4	**16.7**	35.6	**-**	-
Payables	**27.7**	18.8	**8.9**	5.9	**-**	-
Unearned loyalty program revenue	**149.2**	139.4	**9.8**	15.6	**-**	-
Other liabilities	**17.9**	14.3	**3.6**	(4.6)	**-**	-
Equity-raising costs (recognised in equity)	**2.0**	3.5	**(1.5)**	-	**-**	-
Cash flow hedges (recognised in other comprehensive income)	**4.1**	(70.7)	**0.3**	-	**74.5**	(97.2)
Tax losses carried forward	**93.9**	226.1	**(132.2)**	(477.8)	**-**	-
Total deferred tax assets	**473.9**	493.8	**(94.4)**	(425.3)	**74.5**	(97.2)
Deferred tax liabilities						
Property, plant and equipment	**(233.9)**	(317.0)	**83.1**	15.9	**-**	-
Maintenance assets	**(161.5)**	(162.0)	**0.5**	(46.6)	**-**	-
Other assets	**(20.7)**	(14.8)	**(5.9)**	4.1	**-**	-
Total deferred tax liabilities	**(416.1)**	(493.8)	**77.7**	(26.6)	**-**	-
Net deferred tax assets	**57.8**	-	**(16.7)**	(451.9)	**74.5**	(97.2)

(1) Includes the tax effect of AASB 9 and AASB 15 transition adjustments posted to retained earnings at 1 July 2018 and the tax effect of equity-raising costs recognised in share capital.

B6. Reconciliation of net loss to net cash from operating activities

	2019 $m	2018 $m
Loss	**(315.4)**	(653.3)
Adjustments for non-cash items included in profit or loss:		
Depreciation	**324.2**	293.0
Amortisation	**49.2**	44.3
Share of net profit of equity-accounted investee	**-**	(3.5)
Amortisation of deferred borrowing costs and unwinding of discount on provisions and other liabilities	**31.4**	23.2
Net change in fair value of cash flow hedges transferred to profit or loss	**(139.1)**	(51.2)
Unrealised foreign exchange movements – non-operating activities	**1.1**	(18.1)
Amortisation of deferred loss on sale and leaseback assets	**0.3**	0.2
Gains on disposal of assets and assets classified as held for sale	**(1.1)**	(3.4)
Impairment losses on cash-generating units	**152.6**	120.8
Impairment losses on other assets	**-**	47.8
	103.2	(200.2)
Changes in assets and liabilities:		
(Increase)/decrease in receivables	**(0.2)**	41.4
(Increase)/decrease in inventories	**(3.7)**	(1.3)
(Increase)/decrease in other assets	**2.3**	2.9
(Increase)/decrease in deferred and current tax assets	**20.1**	451.9
(Increase)/decrease in derivative financial instruments	**114.5**	65.6
(Decrease)/increase in payables	**92.1**	100.8
(Decrease)/increase in other liabilities	**(3.6)**	(4.3)
(Decrease)/increase in provisions	**24.7**	47.7
(Decrease)/increase in unearned revenue	**120.6**	65.9
Net cash from operating activities	**470.0**	570.4

C. Working capital and other assets and liabilities

This section sets out information relating to the working capital and other assets and liabilities of the Group. Working capital includes the assets and liabilities that are used in the day-to-day trading operations of the Group.

C1. Receivables

Receivables are initially recognised at fair value on the date the Group becomes a party to the contract. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less an allowance for impairment. Impairment is calculated using an expected credit loss model. Refer to note E7 for further information on the calculation of expected credit losses. No interest is charged on trade receivables. Maintenance prepayments include amounts prepaid to third party maintenance providers for the labour component of heavy maintenance and other major components of aircraft.

	2019 $m	2018 $m
Current		
Trade receivables[1]	**161.5**	151.3
Less: provision for doubtful receivables	**(1.7)**	-
	159.8	151.3
Other receivables	**11.9**	40.6
Prepayments	**97.0**	89.7
	268.7	281.6
Non-current		
Maintenance prepayments	**182.6**	191.6

(1) Trade receivables relate to contracts with customers.

The Group's exposure to foreign exchange risk, credit risk and impairment losses related to receivables is disclosed in note E7.

C2. Inventories

Inventories are measured at the lower of cost and net realisable value. The costs of engineering consumables and uniforms are assigned to the individual items of inventory based on weighted average costs. Cost of catering inventory is determined using the first-in, first-out (FIFO) cost method. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses. Inventories expensed during the current financial year totalled $142.7 million (2018: $128.1 million). In addition, inventories have been reduced by $4.6 million (2018: nil) as a result of a write down to net realisable value.

	2019 $m	2018 $m
Engineering expendables – at cost	**34.9**	34.3
Consumables stores – at cost	**16.0**	13.0
Other – at cost	**0.4**	0.3
	51.3	47.6

C3. Other financial assets

Deposits include aircraft and other security deposits which are recognised at amortised cost. Maintenance reserve deposits are payments made to lessors under operating lease agreements. They are measured at fair value with any resulting gains or losses recognised in the consolidated statement of profit or loss.

A loss of $8.3 million has been recognised in other expenses from ordinary activities in the consolidated statement of profit or loss (2018: $6.8 million recognised in impairment losses on other assets in the consolidated statement of profit or loss).

	2019 $m	2018 $m
Current		
Deposits	**0.2**	0.9
Maintenance reserve deposits	**31.0**	11.2
	31.2	12.1
Non-current		
Deposits	**40.9**	39.8
Maintenance reserve deposits	**214.8**	244.4
	255.7	284.2

C4. Other assets

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. If a sale and leaseback transaction results in an operating lease, and the transaction is established at fair value, any profit or loss is recognised immediately. If the sale price is below fair value, any profit or loss is recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred as future lease payments in other assets and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above the fair value, the excess over fair value is deferred as future lease payments in other liabilities and amortised over the period for which the asset is expected to be used. If the fair value at the time of a sale and leaseback transaction is less than the carrying amount, a loss equal to the amount of the difference between the carrying amount and the fair value is recognised immediately in the consolidated statement of profit or loss.

	2019 $m	2018 $m
Current		
Future lease payments	**2.3**	2.4
Other	**0.3**	0.3
	2.6	2.7
Non-current		
Future lease payments	**9.3**	11.5
Other	**1.1**	1.4
	10.4	12.9

C5. Payables

Payables are recognised on the date the Group receives the associated goods or services. They are non-interest-bearing.

	2019 $m	2018 $m
Current		
Trade payables and accruals	**929.0**	805.4
Other payables	**0.1**	2.1
	929.1	807.5
Non-current		
Other payables	**2.7**	5.6

The Group's exposure to currency and liquidity risk related to payables is disclosed in note E7.

C6. Provisions

A provision is a liability of uncertain timing or amount. A provision is recognised when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount can be estimated reliably. If the effect of the time value of money is material, provisions are discounted using a pre-tax rate and the unwinding of the discount is recognised as a finance cost.

Employee benefits – annual leave and sick leave

Liabilities for annual leave expected to be settled within twelve months of the reporting date are measured at their nominal amounts and represent the amounts expected to be paid when liabilities are settled. Liabilities for non-vesting sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Employee benefits – long term employee benefits

The provision for long term employee benefits, such as long service leave, represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to the reporting date. It is calculated using expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using high quality corporate bond rates at the reporting date which most closely match the terms of maturity of the related liabilities.

Employee benefits – employee bonus plans

A liability for employee benefits in the form of bonus plans is recognised in the provision for employee entitlements when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- There are formal terms in the plan for determining the amount of the benefit;
- The amounts to be paid are determined before the time of completion of the annual consolidated financial statements; or
- Past practice gives clear evidence of the amount of the obligation.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

Employee benefits – termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring.

Maintenance – operating leased aircraft

If the Group is obligated under its operating leases to complete an overhaul prior to return of the aircraft based on either use or condition of the aircraft, a provision is recognised at inception of the lease, or as obligations arise, for the present value of the expected payment. The provision is accreted to the expected payment date, with a finance cost recognised in profit or loss. A corresponding asset is also recognised, reflecting the maintenance components within the payments.

The calculation of the maintenance provision requires the use of estimates and judgements. These include the expected use of the aircraft during the lease term, forecast maintenance obligation dates and forecast contractual maintenance rates. CPI has been applied to certain current labour and market costs. The provisions are discounted based on a nominal discount rate applied of 7.9% (2018: 7.9%).

C6. Provisions (continued)

Onerous and unfavourable contracts

An onerous contract is a contract in which the unavoidable cost of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs are measured at the lower of the cost of fulfilling the contract and any compensation or penalties from failure to fulfil it. Before a provision is recognised, the Group recognises any impairment loss on assets dedicated to that contract.

As part of the acquisition of Tigerair Australia, the Group recognised a provision for unfavourable aircraft lease terms of $23.5 million. The final lease agreement expires in October 2021. The Group also recognised a provision of $18.6 million for an engine maintenance contract which has hourly rates which are unfavourable compared to current market rates. The contract expires in June 2023.

In a prior financial year, the Group announced the outcomes of its capital structure review which included fleet and network optimisation initiatives. These initiatives included a planned reduction in the ATR and E190 fleets by way of the sub-leasing of operating leased aircraft. As a result of these initiatives, the Group recognised an onerous contract provision for onerous operating lease terms. This provision was remeasured during the current and prior financial years to reflect changes in market conditions. During the current financial year, the onerous contract provision was increased by $47.4 million (2018: $58.5 million) to reflect these changes. This takes into consideration the unavoidable costs of meeting the Group's obligations under the current lease arrangements, including maintenance obligations, and the expected economic benefits from sub-leasing the aircraft. The provisions were measured based on the Group's best estimate of the net cash outflow that would be required to settle the Group's obligations.

Other

The other category includes provisions for legal costs and property make-good clauses contained in operating leases of premises. The property make-good provisions were recognised during the 2013 financial year as part of the acquisition of Skywest and will all expire by 2022.

(a) Provision balances

	2019 $m	2018 $m
Current		
Employee benefits	**181.0**	157.9
Maintenance	**42.2**	77.3
Onerous and unfavourable contracts	**29.3**	30.8
Other	**3.0**	3.0
	255.5	269.0
Non-current		
Employee benefits[(1)]	**18.0**	20.3
Maintenance	**198.0**	121.0
Onerous and unfavourable contracts	**123.4**	135.9
Other	**0.4**	0.4
	339.8	277.6

(1) Includes $8.1 million (2018: $7.0 million) workers' compensation liability calculated by an external actuary.

(b) Provision movements

2019	Maintenance $m	Onerous and unfavourable contracts $m	Other $m	Total $m
Balance at 1 July	198.3	166.7	3.4	368.4
Provisions made	75.4	47.4	-	122.8
Provisions utilised	(52.9)	(71.5)	-	(124.4)
Provisions reversed	(0.6)	-	-	(0.6)
Unwinding of discount	8.9	1.9	-	10.8
Effect of exchange rate fluctuations	11.1	8.2	-	19.3
Balance at 30 June	240.2	152.7	3.4	396.3

C7. Unearned revenue

Refer to note B3 for a description of the Group's policy in relation to revenue recognition and deferral of unearned revenue, including the estimates and judgements used in estimating unearned revenue.

	2019 $m	2018 $m
Current		
Unearned passenger revenue	**746.5**	661.1
Unearned loyalty program revenue	**497.1**	464.9
Credit vouchers and other unearned revenue	**19.1**	16.1
	1,262.7	1,142.1

Unearned passenger revenue

Unearned passenger revenue comprises revenue from passenger ticket sales received in advance of carriage and is classified as current as all passenger tickets are expected to be used within 12 months. It is recognised as revenue when carriage is performed or, in the case of passengers not uplifted, when a passenger is not expected or able to utilise their ticket, based on historical and future trends and fare rules. Revenue of $661.1 million was recognised in the current financial year that was included in the balance of unearned revenue at 30 June 2018.

Unearned loyalty program revenue

Unearned loyalty program revenue comprises the obligation to provide awards to members in relation to points which have been issued but not yet redeemed. It is classified as current as there are no restrictions on the ability of members to redeem their points. The Group expects a portion of the balance will be redeemed beyond 12 months. It is recognised as revenue when the points are redeemed or, in the case of points redeemed for qualifying airline services provided by the Group, when carriage is performed. Revenue per point is recognised using a weighted average value based on the balance of unearned loyalty program revenue divided by the number of points expected to be redeemed. At each reporting date, the Group estimates the amount of outstanding points that are expected to be redeemed based on the terms and conditions of the program, experience, historical and future trends. Changes in this estimate are recognised as revenue. Revenue of $246.0 million was recognised in the current financial year that was included in the balance of unearned revenue at 30 June 2018.

Credit vouchers and other unearned revenue

The Group issues credit vouchers in a range of circumstances and classifies these as current as they expire within 12 months. Credit vouchers are recognised as revenue when carriage is performed, following redemption of the voucher or when the likelihood of a passenger utilising the voucher becomes remote, based on historical and expected future trends. Revenue of $16.1 million was recognised in the current financial year that was included in the balance of unearned revenue at 30 June 2018.

D. Tangible and intangible assets

This section sets out the non-current tangible and intangible assets used by the Group to generate revenues and the methods the Group uses to assess the recoverable amount of these assets.

D1. Assets classified as held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. For this to be the case, the asset must be available for sale in its present condition, the sale must be highly probable and management must be committed to the plan to sell within one year from the date of classification. Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Fair value is estimated based on recent similar transactions and negotiations with market participants and requires significant estimates and judgements. Depreciation and amortisation of these assets ceases from the date they are classified as held for sale.

	2019 $m	2018 $m
Balance at 1 July	-	4.3
Assets sold	-	(4.3)
Balance at 30 June	-	-

D2. Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price plus any costs directly attributable to the acquisition. This may include transfers from other comprehensive income of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Subsequent costs are capitalised only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Costs of day-to-day servicing of owned and leased aircraft, including minor airframe checks are recognised in profit or loss as incurred.

The cost of major cyclical maintenance on owned aircraft is capitalised to the carrying value of the aircraft as incurred and depreciated over the period to the next scheduled heavy maintenance event. The useful life is revised at each reporting date to match the timing of the next scheduled maintenance event.

If the Group is obligated under its operating leases to complete an overhaul prior to return of the aircraft based on either use or condition of the aircraft, a provision is recognised at inception of the lease, or as obligations arise, for the present value of the expected payment. A corresponding asset is also recognised, reflecting the maintenance components within the payments. The asset is depreciated on a straight-line basis over the life of the lease. The cost of major cyclical maintenance and modifications to operating leased aircraft are capitalised as leasehold improvements and depreciated over the shorter of the remaining lease term, the estimated life of the improvement or the time to the next major maintenance event.

Depreciation is recognised on a straight-line basis over the estimated useful life, taking into account estimated residual values. Assets are depreciated from the date they are installed and are ready for use, or, in respect of internally constructed assets, from the time an asset is completed and held ready for use. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Finance leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term, in which case they are depreciated over their useful lives.

Depreciation methods, useful lives and residual values are reviewed at each reporting date. The estimation of useful lives and residual values requires judgement. Australian dollar residual value estimates are based on US dollar market estimates of future aircraft values and estimates of future use of the aircraft, including maintenance profiles.

There were no significant changes to the useful lives of property, plant and equipment during the current financial year. During the prior financial year, the useful life of B737 aircraft was changed from 18 to 22 years.

The estimated useful lives in years of each class of asset are as follows:

	2019	2018
Buildings	**10-40**	10-40
Aircraft and aeronautic related assets		
– Modifications to leased aircraft	**6-13**	6-13
– Rotables and maintenance parts	**9-30**	9-33
– Airframe, engines and landing gear	**4-22**	4-22
– Major cyclical maintenance	**1-10**	1-10
Plant and equipment		
– Leasehold improvements	**1-15**	1-15
– Other	**5-26**	5-33
Computer equipment	**3-5**	3-5
Finance leased assets		
– Buildings	**34**	34
– Aeronautic related assets	**4-5**	4-5

D2. Property, plant and equipment (continued)

2019	Buildings $m	Aircraft and aeronautic[(1)] $m	Plant and equipment $m	Computer equipment $m	Finance leased assets $m	Work in progress $m	Total $m
Balance at 1 July	5.8	2,815.2	94.3	6.3	34.7	74.7	3,031.0
Additions	-	217.9	-	0.1	-	307.5	525.5
Impairment losses[(2)]	-	(83.8)	(8.6)	-	-	(0.7)	(93.1)
Disposals[(4)]	-	(1.6)	-	-	-	-	(1.6)
Depreciation	(0.5)	(298.3)	(18.8)	(3.4)	(3.2)	-	(324.2)
Transfers to intangible assets	-	-	-	-	-	(17.2)	(17.2)
Transfers from work in progress	-	273.3	13.5	-	-	(286.8)	-
Foreign exchange movements	-	82.0	-	-	-	(0.3)	81.7
Balance at 30 June	5.3	3,004.7	80.4	3.0	31.5	77.2	3,202.1
At cost	18.4	5,015.3	278.3	31.5	43.3	77.9	5,464.7
Accumulated depreciation and impairment	(13.1)	(2,010.6)	(197.9)	(28.5)	(11.8)	(0.7)	(2,262.6)
	5.3	3,004.7	80.4	3.0	31.5	77.2	3,202.1
Total pledged as security in relation to interest-bearing liabilities	-	2,320.8	-	-	-	-	2,320.8

2018	Buildings $m	Aircraft and aeronautic[(1)] $m	Plant and equipment $m	Computer equipment $m	Finance leased assets $m	Work in progress $m	Total $m
Balance at 1 July	6.0	2,679.9	117.8	9.6	38.5	64.8	2,916.6
Additions	-	354.2	0.4	0.3	-	147.2	502.1
Impairment losses[(3)]	-	(131.3)	-	-	-	-	(131.3)
Disposals[(4)]	-	(7.3)	-	-	-	-	(7.3)
Depreciation	(0.2)	(261.3)	(24.1)	(3.6)	(3.8)	-	(293.0)
Transfers from work in progress	-	136.9	0.2	-	-	(137.1)	-
Foreign exchange movements	-	44.1	-	-	-	(0.2)	43.9
Balance at 30 June	5.8	2,815.2	94.3	6.3	34.7	74.7	3,031.0
At cost[(5)]	18.4	4,459.4	264.8	31.4	43.3	74.7	4,892.0
Accumulated depreciation and impairment[(5)]	(12.6)	(1,644.2)	(170.5)	(25.1)	(8.6)	-	(1,861.0)
	5.8	2,815.2	94.3	6.3	34.7	74.7	3,031.0
Total pledged as security in relation to interest-bearing liabilities	-	2,108.4	-	-	-	-	2,108.4

(1) Includes deposits and other costs incurred in respect of aircraft which have not yet been delivered of $192.6 million (2018: $55.3 million). These amounts are not being depreciated.

(2) Impairment losses are recognised in impairment losses on cash-generating units in the consolidated statement of profit or loss.

(3) Impairment losses are recognised in impairment losses on cash-generating units ($109.8 million) and impairment losses on other assets ($21.5 million) in the consolidated statement of profit or loss.

(4) Net gains and losses on disposal of assets are recognised in other expenses from ordinary activities (2018: impairment losses on other assets) in the consolidated statement of profit or loss.

(5) The Group has derecognised the cost and accumulated depreciation of fully depreciated assets for which no future economic benefits are expected.

D3. Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. They are classified as having a useful life that is either finite or indefinite. Assets with finite lives are amortised on a straight-line basis over the useful economic life and assessed for impairment whenever there is an indication the asset may be impaired. Amortisation methods, useful lives and residual values are reviewed at each reporting date. Assets with indefinite useful lives are not amortised but are tested for impairment annually and whenever there is an indication the asset may be impaired. The estimation of useful lives and residual values and impairment requires judgement.

Goodwill

Goodwill is an asset recognised in a business combination and represents the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised. It has an indefinite useful life and is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. After initial recognition, it is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Refer to note D4 for the allocation of goodwill between CGUs and impairment losses recognised in relation to goodwill.

Software

The Group's software assets have useful lives of between 1 and 13 years (2018: 1 and 15 years). The Sabre reservation system has a carrying value of $51.9 million at 30 June 2019 (2018: $58.6 million) and has a useful life of 13 years (2018: 15 years). The remaining amortisation period is 8 years (2018: 10 years). The useful life of the Sabre reservation system has been reduced by 2 years during the current financial year (2018: nil).

Contract intangible

An intangible asset was recognised during a prior financial year following the completion and commencement of use of Terminal 1 at Perth Airport. The asset has a useful life of 20 years. The remaining amortisation period is 17 years (2018: 18 years).

Customer contracts and relationships

Customer contracts have been recognised as a result of business combinations and have finite useful lives of between 1 and 10 years (2018: 1 and 10 years). The remaining amortisation period of the assets is 1 to 4 years (2018: 1 to 5 years).

2019	Goodwill $m	Software $m	Contract intangible $m	Customer contracts and relationships $m	Work in progress $m	Total $m
Balance at 1 July	290.8	192.0	54.2	6.4	73.6	617.0
Additions	-	0.6	-	-	54.6	55.2
Amortisation	-	(44.3)	(3.6)	(1.3)	-	(49.2)
Impairment losses[1]	(53.2)	-	-	-	(6.3)	(59.5)
Transfers from property, plant and equipment	-	-	-	-	17.2	17.2
Transfers from work in progress	-	42.1	2.2	-	(44.3)	-
Balance at 30 June	237.6	190.4	52.8	5.1	94.8	580.7
At cost	290.8	389.2	75.6	21.7	101.1	878.4
Accumulated amortisation and impairment	(53.2)	(198.8)	(22.8)	(16.6)	(6.3)	(297.7)
	237.6	190.4	52.8	5.1	94.8	580.7

(1) Impairment losses are recognised in impairment losses on cash-generating units in the consolidated statement of profit or loss.

D3. Intangible assets (continued)

2018	Goodwill $m	Software $m	Contract intangible $m	Customer contracts and relationships $m	Work in progress $m	Total $m
Balance at 1 July	290.8	199.6	55.1	7.2	64.5	617.2
Additions	-	2.0	2.5	-	50.6	55.1
Amortisation	-	(39.4)	(3.4)	(1.5)	-	(44.3)
Impairment losses(1)	-	-	(11.0)	-	-	(11.0)
Transfers from work in progress	-	29.8	11.0	0.7	(41.5)	-
Balance at 30 June	290.8	192.0	54.2	6.4	73.6	617.0
At cost	290.8	346.5	73.4	21.7	73.6	806.0
Accumulated amortisation and impairment	-	(154.5)	(19.2)	(15.3)	-	(189.0)
	290.8	192.0	54.2	6.4	73.6	617.0

(1) Impairment losses are recognised in impairment losses on cash-generating units in the consolidated statement of profit or loss.

D4. Impairment testing

The Group assesses, at each reporting date, whether there is an indication that an asset is impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or - where the asset does not generate inflows that are largely independent of those from other assets or groups of assets - the cash-generating unit's (CGUs) fair value less costs of disposal and its value-in-use. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount. A CGU is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The determination of CGUs requires judgement regarding the way management monitors the Group's operations and makes decisions regarding continuing or disposing of those operations. The Group has determined that its CGUs are consistent with its operating segments.

If an impairment loss was recognised in a prior period for an asset other than goodwill, and the carrying value of the CGU exceeds its recoverable amount, management makes a judgement as to whether any portion of the impairment should be reversed in the profit or loss during the current reporting period. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset after the reversal cannot exceed the amount that would have been determined, net of amortisation or depreciation had no impairment loss been recognised.

(a) Allocation of intangible assets with indefinite useful lives

The carrying value of goodwill allocated to each CGU is summarised in the table below. These balances are not amortised and therefore result in a greater risk of impairment losses in future periods.

The Group has no other intangible assets with indefinite useful lives.

	Goodwill	
CGU	2019 $m	2018 $m
Virgin Australia Domestic	**234.1**	234.1
Virgin Australia International	**-**	-
Tigerair Australia	**-**	53.2
Velocity	**3.5**	3.5
Total	**237.6**	290.8

D4. Impairment testing (continued)

(b) Recoverable amount

The recoverable amounts of CGUs have been determined based on value-in-use calculations. Estimated future cash flows are based on financial budgets covering a five year period prepared from the corporate strategic plan presented to the Board and senior management. The key assumptions underlying the cash flow projections are as follows:

- Management's expectation regarding the market, including network capacity, passenger numbers, revenue yield and operating costs;
- Management's expectation of maintenance expenditure associated with the fleet, based on the Group's forward maintenance plans;
- The fuel price is set with regard to the Singapore kerosene forward curve adjusted for refining margins and hedge positions;
- The AUD/USD exchange rate is set with regard to the consensus analyst forecast;
- Load factors and average net fares are set having regard to historical experience, economic and market conditions, fleet plans and competitor behaviour; and
- Projected cash flows beyond the five year period are based on management's best estimate of long term growth rates.

Estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects the weighted average cost of capital based on the risk-free rate for ten year Australian government bonds adjusted for a risk premium to reflect the risk of the specific CGU.

The growth rates, post-tax discount rates (and equivalent pre-tax discount rates) used in determining value-in-use are included in the table below.

	Growth rate		Post-tax rate		Pre-tax rate	
CGU	2019 %	2018 %	2019 %	2018 %	2019 %	2018 %
Virgin Australia Domestic	**2.50**	3.00	**7.30**	7.70	**9.10**	9.55
Virgin Australia International	**2.50**	3.00	**8.10**	8.60	**9.32**	9.01
Tigerair Australia	**2.50**	3.00	**8.20**	8.20	**8.42**	9.37
Velocity	**3.00**	3.00	**7.30**	7.70	**8.90**	9.08

(c) Impairment of Virgin Australia International and Tigerair Australia

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 reduced 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. The recoverable amount of the Tigerair Australia CGU is $80.3 million based on a value-in-use calculation.

During the current financial year, an impairment loss of $47.6 million (2018: $120.8 million) was 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. The recoverable amount of the Virgin Australia International CGU is $474.4 million (2018: $449.0 million) based on a value-in-use calculation.

In allocating impairment losses to assets within each CGU, the carrying amount of assets were not reduced below their individual recoverable amounts, where measurable. Recoverable amounts of aircraft & aeronautic assets are based on Level 3 inputs (refer to note E8 for further information on categories within the fair value hierarchy). Inputs are sourced from independent aircraft and maintenance event valuations produced by leading, internationally recognised aircraft appraisers.

(d) Sensitivity analysis

The Group has considered all reasonably possible changes in key assumptions relating to the Virgin Australia Domestic and Velocity CGUs and concluded that no impairment would result from these changes.

E. Capital structure and financial risks

This section sets out the capital structure of the Group and its exposure to financial risks. The capital structure consists of debt and equity. The Group has a strong focus on optimising the capital structure to obtain a balance between reducing finance costs and managing risks. This section also sets out the financial risks to which the Group is exposed as a result of its operating, investing and financing activities.

E1. Capital management

Capital management is a key focus of the Board and senior management and it is the Group's policy to maintain a strong capital base that will ensure continuing investor, creditor and market support for the future development of the business. As part of this strategy, the Group continues to target credit metrics consistent with a "BB" credit rating in order to retain access to a variety of funding markets at a competitive cost.

The Board monitors:

- The liquidity of the Group including unrestricted and total cash balances;
- Future financing requirements including those relating to aircraft purchases, with determination of financing being based on competitively priced financing alternatives available at the time of the financing transaction; and
- Compliance with debt covenants.

Refer to note E7 for information regarding key market, credit and liquidity risks.

The following table summarises the Group's net debt position.

	2019 $m	2018 $m
Current interest-bearing liabilities	**(771.9)**	(295.1)
Cash and cash equivalents (including restricted cash)	**1,740.0**	1,415.5
Current net debt	**968.1**	1,120.4
Non-current interest-bearing liabilities	**(2,256.9)**	(2,273.0)
Net debt (non-IFRS measure)	**(1,288.8)**	(1,152.6)

E2. Cash and cash equivalents

Cash and cash equivalents are carried at amortised cost and comprise cash on hand, on-demand deposits and short-term highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant changes in value.

	2019 $m	2018 $m
Cash at bank and on hand	**591.1**	530.2
Deposits	**1,148.9**	885.3
	1,740.0	1,415.5

Certain merchant acquiring relationships require restricted cash to be held to cover total forward sales for some forms of payment. Cash is also required to secure standby letters of credit and bank guarantees. Cash held in entities with non-controlling interests are subject to restrictions relating to distributions. The amount of restricted cash included in cash and cash equivalents but not available for use is $409.7 million (2018: $414.7 million).

E3. Interest-bearing liabilities

Interest-bearing liabilities are initially recognised at fair value, net of transaction costs incurred, on the date they originate. They are subsequently measured at amortised cost, using the effective interest method. They are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance date.

(a) Carrying amount

	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 transaction costs in accordance with the Group's accounting policy.

The increase in interest-bearing liabilities of $460.7 million is due to financing cash flows ($348.4 million increase), the effect of foreign exchange rates ($97.0 million increase) and other changes ($15.3 million increase).

(b) Facility terms

			Carrying/drawn amount $m		Facility limit $m	
	Currency	**Calendar year of principal repayments**	**2019**	**2018**	**2019**	**2018**
Secured bank loans						
– Aircraft	AUD	2019-2030	**696.9**	262.2	**813.6**	262.2
– Aircraft	USD	2019-2028	**619.7**	898.6	**619.7**	898.6
– Aircraft	JPY	2019-2026	**-**	-	**57.9**	-
– Other	AUD	2020	**222.9**	220.6	**228.7**	224.1
Unsecured loans						
– Other	AUD	N/A	**-**	-	**12.0**	1.2
– Unsecured bonds	AUD	2023-2024	**397.0**	148.1	**397.0**	148.1
– Unsecured bonds	USD	2019-2021	**1,061.6**	1,003.5	**1,061.6**	1,003.5
Finance leases	AUD	2019-2047	**22.5**	23.1	**22.5**	23.1
Finance leases	USD	2019-2020	**8.2**	12.0	**8.2**	12.0
Standby letters of credit and bank guarantees	AUD and USD	2019-2027	**203.9**	179.9	**312.3**	220.5
			3,232.7	2,748.0	**3,533.5**	2,793.3

For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, refer to note E7.

(c) Assets pledged as security

$25.1 million (2018: $33.8 million) of the standby letters of credit and bank guarantee facilities require no collateral. The remaining letters of credit and bank guarantee facilities are secured over cash and cash equivalents or property, plant and equipment of an equivalent amount. The carrying amount of property, plant and equipment pledged as security and the subsidiaries whose issued capital is pledged as security for current and non-current interest-bearing liabilities is disclosed in notes D2 and F3, respectively.

E4. Share capital

Ordinary share capital

Ordinary shares carry one vote per share and carry the right to dividends. In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation. All authorised shares have been issued and fully paid and have no par value.

On 28 February 2018, the Company announced an opt-out facility (the facility) to buy back unmarketable parcels of shares at a price of $0.30 per share. An unmarketable parcel of shares is a shareholding in the Company valued at less than $500. The facility completed on 23 April 2018, at which time the Company cancelled 12,900,841 shares at a value of $3,870,252. Transaction costs were recognised in the current and prior financial years in relation to the buy back.

Treasury shares

The trustee for the Key Employee Performance Plan (KEPP) holds shares in VAH which may be transferred to employees of the Group in accordance with the rules of the plan. The trust acts as the Company's agent and, accordingly, KEPP transactions are treated as being directly executed by the Company. These shares are represented as treasury shares and offset against share capital in the table below. The Group has recognised the cost of the KEPP shares in profit or loss and has recognised the carrying value of the shares in the share-based payments reserve.

Treasury shares carry no voting or dividend rights until the shares are transferred to the employees, following satisfaction of any vesting conditions. When the shares vest, the carrying value of the vested shares is transferred from the share-based payments reserve to share capital. Refer to note G3 for further information on share-based payments.

	2019		2018	
	Number (m)	Value $m	Number (m)	Value $m
Ordinary share capital (issued and fully paid)				
Balance at 1 July	**8,445.2**	**2,255.4**	8,458.1	2,260.3
Buy back of shares for cash including transaction costs, net of tax	**-**	**(0.4)**	(12.9)	(4.9)
Balance at 30 June	**8,445.2**	**2,255.0**	8,445.2	2,255.4
Less: Treasury shares				
Balance at 1 July	**(3.4)**	**(16.5)**	(4.0)	(16.6)
Increase in share capital - SEOP Issue 20	**-**	**-**	0.6	0.1
Balance at 30 June	**(3.4)**	**(16.5)**	(3.4)	(16.5)
Net ordinary share capital				
Balance at 1 July	**8,441.8**	**2,238.9**	8,454.1	2,243.7
Buy back of shares for cash including transaction costs, net of tax	**-**	**(0.4)**	(12.9)	(4.9)
Increase in share capital - SEOP	**-**	**-**	0.6	0.1
Balance at 30 June	**8,441.8**	**2,238.5**	8,441.8	2,238.9

E5. Dividends

No dividends were declared or paid during the year ended 30 June 2019 or during the prior year. The following imputation credits are available for use in a subsequent reporting period. The ability to use franking credits is dependent on the ability to declare dividends.

	2019 $m	2018 $m
Dividend franking account balances		
Virgin Australia Holdings Limited based on tax rate of 30% (2018: 30%)	-	14.3
Exempting franking credits from acquisition of Skywest Group based on tax rate of 30% (2018: 30%)	**4.2**	4.2

E6. Reserves

Foreign currency translation reserve

Exchange differences arising on translation of foreign operations are recognised in the foreign currency translation reserve, as described in note A(d).

Hedge reserve and option time value reserve

The hedge reserve and option time value reserve are used to recognise the effective portion of changes in the fair value of cash flow hedging instruments. If the hedging instrument no longer meets the criteria for hedge accounting, is expired or sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in the hedge reserve or option time value reserve remains there until the forecast transaction is recognised in profit or loss, or recognised as part of the acquisition price of property, plant and equipment.

Share-based payments reserve

The Group operates employee option plans and share plans. The share-based payments reserve is used to recognise the grant date fair value of equity-settled share-based payments provided to employees with a corresponding entry in profit or loss. When the underlying shares vest and are transferred to the employee, the reserve balance is reversed and recognised in share capital. Refer to note G3 for further information on share-based payments.

Non-controlling interests' contribution reserve

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.

E7. Financial risk management

The Group has exposure to a variety of financial risks, including market risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. There have been no significant changes in the Group's risk management strategy from the previous period.

The Group manages these risk exposures using various financial instruments. The Board has determined hedging limits for financial risks and these are documented in the Treasury Risk Management Policy. Transactions entered into must be carried out within these guidelines. Implementation of this policy is delegated to management, who have flexibility to act within the bounds of the authorised policy limits. Group policy is to not enter, issue or hold derivative financial instruments for speculative trading purposes. Compliance with the policy is monitored on an ongoing basis through regular reporting to the Board.

(a) Market risk

Market risk is the risk that changes in market prices, such as fuel prices, foreign exchange rates and interest rates, will affect the Group's cash flows and profits. The objective of market risk management is to manage and control market exposures, within tolerances.

The Group enters into derivatives to manage market risks relating to fuel prices, foreign exchange rates and specific asset purchases denominated in foreign currencies. Derivatives are recognised at fair value, both initially and on an ongoing basis. On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group assesses, both at the inception of the hedge relationship and on an ongoing basis, whether the hedging instruments are expected to be "highly effective". The Group also enters into derivatives to manage market risks on debt repayments denominated in a foreign currency. These derivatives are not hedge accounted, instead they are measured at fair value through profit or loss to offset the revaluation of the debt instrument through profit or loss.

Hedges of highly probable forecast transactions which are exposed to variations in cash flows that could ultimately affect profit or loss are called cash flow hedges. Changes in the fair value of derivatives designated as cash flow hedges are recognised directly in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss. Cumulative gains and losses in other comprehensive income, including those relating to discontinued hedges, are recognised in profit or loss in the periods in which the hedged item will affect profit or loss. If the hedged item is capital in nature, the cumulative gain or loss is transferred to the carrying value of the hedged item when it is recognised. Hedges of debt repayments denominated in a foreign currency which are measured at fair value through profit or loss are recognised in other expenses from ordinary activities in the consolidated statement of profit or loss.

Changes in the fair value of derivative financial instruments that are not designated in a hedge relationship are recognised immediately in profit or loss.

The following table summarises the fair value of the Group's cash flow hedges relating to forward foreign exchange and fuel hedging contracts as at reporting date.

	2019 $m	2018 $m
Assets		
Forward foreign exchange contracts - fair value through other comprehensive income	**38.3**	36.7
Forward foreign exchange contracts - fair value through profit or loss	**35.5**	21.4
Fuel hedging contracts - fair value through other comprehensive income	**11.3**	225.9
	85.1	284.0
Liabilities		
Forward foreign exchange contracts - fair value through other comprehensive income	**3.3**	4.4
Fuel hedging contracts - fair value through other comprehensive income	**14.3**	2.4
	17.6	6.8

E7. Financial risk management (continued)

(b) Market risk - fuel price risk

Fuel price risk arises on the Group's exposure to jet fuel prices.

Fuel price risk management

The Group's fuel price risk management strategy aims to provide the airline with protection against sudden and significant increases in fuel prices while ensuring that the airline is not competitively disadvantaged in the event of a substantial decrease in the price of fuel.

The Group's risk management policy is to hedge anticipated jet fuel consumption subject to limits determined by the Board. This exposure is managed by using Singapore kerosene and Brent crude commodity swaps, option contracts and other fuel related derivatives. These contracts are designated as hedges of price risk on specific volumes of future jet fuel consumption. The Group considers Brent crude to be a separately identifiable and measurable component of Singapore kerosene. The price of Brent crude is highly correlated with the price of Singapore kerosene and represents approximately 85% of the total Singapore kerosene price. The Group primarily operates in a geographical area in which jet fuel is priced in reference to Singapore kerosene as opposed to other jet fuels (i.e. MOPAG, LA PIPE).

Ineffectiveness on fuel derivatives can arise from timing differences on the notional amount between the hedging instrument and hedged item, or changes in market dynamics which may cause the Group to reassess the component inputs into jet fuel. As at 30 June 2019, the Group has no ineffectiveness (2018: no ineffectiveness) on derivative positions.

Realised gains or losses on fuel hedging contracts arise due to differences between the actual fuel prices on settlement, the forward rates of derivative contracts and the cost of option premiums paid.

	2019 $m	2018 $m
Fuel hedging gains recognised in fuel and oil expense	**127.6**	82.9

The following table sets out the timing of the notional amount and the hedged price range (minimum and maximum strike/contract rates) of the Group's fuel hedging instruments.

	Hedged price $/bbl	Notional amount bbl (m)	Less than 1 year bbl (m)	1 to 5 years bbl (m)
AUD fuel costs				
2019	**75-135**	**11.7**	**8.1**	**3.6**
2018	68-128	11.5	8.0	3.5

Sensitivity to fuel price

The following table summarises the sensitivity of the Group's financial assets and liabilities to a reasonably possible change in fuel prices. An AUD 30 (2018: AUD 30) per barrel (bbl) increase or decrease in the price of fuel (with no change in refining margin) would have increased/(decreased) equity and the profit or loss (before tax) by the amounts shown below. This assumes all other variables remain constant and is based on the designated hedge relationship at the reporting dates.

		AUD 30/bbl increase		AUD 30/bbl decrease	
	Carrying amount $m	Profit or loss $m	Equity $m	Profit or loss $m	Equity $m
2019					
Net derivative financial liability	**3.1**	**-**	**364.3**	**-**	**(255.1)**
2018					
Net derivative financial asset	223.5	-	226.7	-	(246.2)

E7. Financial risk management (continued)

(c) Market risk - foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. The Group undertakes transactions in US dollars, including the cost of purchasing fuel, aircraft, aircraft lease payments, some maintenance costs, the sale of airline passenger tickets and the repayment of USD debt and interest. The Group also undertakes transactions in New Zealand dollars (NZD). The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
AUD	**2019**	**2018**	**2019**	**2018**
USD	**0.7197**	0.7737	**0.7020**	0.7404
NZD	**1.0686**	1.0817	**1.0450**	1.0929

Exposure to foreign exchange risk

The Group's exposure to foreign exchange risk at the reporting date was as follows, based on notional amounts (presented in AUD):

	2019		2018	
	USD $m	NZD $m	USD $m	NZD $m
Cash and cash equivalents	**794.7**	**18.6**	704.1	22.8
Receivables	**55.2**	**5.1**	54.3	2.6
Other financial assets	**94.6**	**0.1**	120.8	0.1
Payables	**(185.4)**	**(22.7)**	(125.8)	(14.3)
Interest-bearing liabilities	**(1,076.6)**	**-**	(1,025.0)	-
Gross statement of financial position exposure	**(317.5)**	**1.1**	(271.6)	11.2

Foreign exchange risk management

To protect against exchange rate movements, the Group uses forward exchange contracts and option contracts to purchase US dollars to hedge highly probable forecasted purchases for the ensuing financial periods. The contracts are timed to mature when the operating expenses or capital expenditure are expected to be settled. Realised gains or losses on these contracts arise due to differences between the actual spot rates on settlement, the forward rates of the derivative contracts and the cost of option premiums paid.

Ineffectiveness on foreign exchange derivatives can arise from timing differences on the notional amount between the hedged instrument and hedged item. At 30 June 2019, the Group has no ineffectiveness (2018: no ineffectiveness) on derivative positions.

	2019 $m	2018 $m
Foreign exchange hedging gains/(losses) recognised in aircraft operating lease expenses, contract and other maintenance expenses, other expenses from ordinary activities, and finance costs	**11.2**	(31.7)
Realised and unrealised gains/(losses) recognised in other expenses from ordinary activities	**45.6**	-

The following table sets out the timing of the notional amount and the hedged rate range (minimum and maximum strike/contract rates) of the Group's foreign exchange hedging instruments.

	Hedged rate AUD/USD	Notional amount $m	Less than 1 year $m	1 to 5 years $m
USD operating and capital costs				
2019	**0.65-0.81**	**1,928.7**	**1,393.8**	**534.9**
2018	0.70-0.81	1,735.8	1,116.6	619.2

E7. Financial risk management (continued)

(c) Market risk - foreign exchange risk (continued)

Sensitivity to foreign exchange rates

The following table summarises the sensitivity of the Group's foreign currency denominated financial assets and liabilities to a reasonably possible change in the exchange rate to the US dollar. This includes monetary assets and liabilities denominated in a foreign currency which are held by controlled entities with a US dollar functional currency for which changes in exchange rates are recognised within the foreign currency translation reserve. A 10% (2018: 10%) appreciation or depreciation of the AUD against the USD would have increased/(decreased) equity and profit or loss (before tax) by the amounts shown below. This assumes all other variables remain constant.

		10% appreciation in AUD		10% depreciation in AUD	
	Carrying amount $m	Profit or loss $m	Equity $m	Profit or loss $m	Equity $m
2019					
Non-derivative financial assets	**1,132.6**	**(85.9)**	**(17.1)**	**104.9**	**20.9**
Net derivative financial asset	**66.3**	**(58.4)**	**(87.1)**	**77.4**	**168.6**
Non-derivative financial liabilities	**(1,840.3)**	**114.7**	**52.6**	**(140.2)**	**(64.3)**
		(29.6)	**(51.6)**	**42.1**	**125.2**
2018					
Non-derivative financial assets	1,051.3	(79.9)	(15.6)	97.7	19.1
Net derivative financial liability	172.7	(41.7)	(97.6)	51.0	170.6
Non-derivative financial liabilities	(2,120.1)	104.6	88.1	(127.9)	(107.7)
		(17.0)	(25.1)	20.8	82.0

(d) Market risk - interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises from cash and cash equivalents and interest-bearing liabilities. The carrying value of these financial instruments is set out in the table below. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

Interest rate risk management

The Group manages its cash flow interest rate risk by entering into fixed and floating rate debt and operating lease arrangements. The residual exposure to variable interest rates is managed by holding floating rate assets to create a natural hedge and may include entering into floating-to-fixed interest rate swaps to hedge part of this exposure. The Group accounts for variable rate financial assets and financial liabilities at amortised cost using the effective interest rate method. There were no gains or losses on interest rate hedging activities for the Group during the current or prior financial years.

Exposure to interest rate risk and sensitivity to interest rates

The fixed and variable components of the Group's cash and cash equivalents and interest-bearing liabilities are set out in the table below. Non-interest-bearing amounts are not reported separately in the table. The impact on profit or loss (before tax) of a 100 basis point increase or decrease in interest rates, assuming all other variables remain constant, is also set out below. There are no impacts on equity.

		Interest rate profile		Profit or loss sensitivity	
	Carrying amount $m	Fixed rate instruments $m	Variable rate instruments $m	100 bp increase $m	100 bp decrease $m
2019					
Cash and cash equivalents	**1,740.0**	**1,133.2**	**581.5**	**5.8**	**(5.8)**
Interest-bearing liabilities	**(3,028.8)**	**(2,344.3)**	**(684.5)**	**(6.8)**	**6.8**
	(1,288.8)	**(1,211.1)**	**(103.0)**	**(1.0)**	**1.0**
2018					
Cash and cash equivalents	1,415.5	1,004.5	380.3	3.8	(3.8)
Interest-bearing liabilities	(2,568.1)	(1,940.4)	(627.7)	(6.3)	6.3
	(1,152.6)	(935.9)	(247.4)	(2.5)	2.5

E7. Financial risk management (continued)

(e) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial asset fails to meet its contractual obligations. Financial assets include cash and cash equivalents, receivables, derivative financial instruments and other financial assets.

Cash and cash equivalents, derivative financial instruments and other financial assets

Exposure to credit risk in relation to cash and cash equivalents, derivative financial instruments and other financial assets arises principally from financial institution and aircraft lessor counterparties. The Group limits its exposure to credit risk by only investing in liquid securities with counterparties and entering into derivative contracts with counterparties that have an investment grade rating. The Group also limits exposure by transacting with multiple aircraft lessors in various countries.

Receivables

Exposure to credit risk in relation to receivables arises principally from trade debtor and other counterparties (travel agents, industry settlement organisations and credit provided direct to customers).

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or counterparty and is assessed based on trading performance of the counterparty. The Group has credit policies in place under which each new trade debtor is analysed individually for creditworthiness before the Group's standard payment terms are offered. Purchase limits are established for each counterparty and reviewed on a regular basis to ensure that sales made on credit terms are made to counterparties with an appropriate credit history. The Group continuously monitors counterparty credit limits on defaults, incorporating this information into credit risk controls.

The demographics of the Group's customer base, including default risk of the industry, have less of an influence on credit risk. A significant proportion of the Group's revenue is received through credit cards, however, there are no significant concentrations of credit risk.

Of the trade receivables as at 30 June 2019, deemed neither past due nor impaired, there are no customers who represent more than 5% (2018: 5%) of the total balance of trade receivables. The average credit period on revenue is 12 days (2018: 14 days). Upon default, the credit of customers immediately ceases. A provision for doubtful receivables account in respect of trade receivables is used to record expected credit losses (ECLs). The Group uses an allowance matrix to measure the ECLs of trade receivables from individual customers because trade receivables is comprised of a very large number of small balances. Loss rates are calculated using a 'roll rate' method based on the probability of a receivable being written off. If the Group is satisfied that no recovery of the amount owing is possible the amount is written off against the financial asset directly. An ageing analysis of receivables is included in the table below:

	Gross 2019 $m	Impairment 2019 $m	Gross 2018 $m	Impairment 2018 $m
Not past due	**164.8**	**-**	175.7	-
Past due 1-30 days	**5.8**	**-**	12.9	-
Past due 31-60 days	**1.8**	**(1.5)**	2.6	-
61+ days	**1.0**	**(0.2)**	0.7	-
	173.4	**(1.7)**	191.9	-

Exposure to credit risk

The Group's maximum exposure to credit risk at the reporting date equates to the carrying amount of its financial assets and is set out in the table below.

		Carrying amount	
	Note	2019 $m	2018 $m
Cash and cash equivalents	E2	**1,740.0**	1,415.5
Receivables	C1	**171.7**	191.9
Derivative financial instruments		**85.1**	284.0
Other financial assets	C3	**286.9**	296.3
		2,283.7	2,187.7

E7. Financial risk management (continued)

(f) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Exposure to liquidity risk

The following table summarises the periods in which the cash flows associated with derivatives are expected to occur, as well as the contractual maturities of financial liabilities, including estimated interest payments and the impact of netting agreements. The carrying amount of derivative financial instruments that are cash flow hedges is based on the valuation at reporting date and therefore the settled gain or loss may be more or less than this amount. The net inflows/(outflows) relating to derivatives that are net cash settled represent the contractual undiscounted cash flows relating to derivatives held for risk management purposes as at 30 June. Derivative financial instruments may be closed out prior to their contracted maturity date in accordance with the Group's hedging policy. The cash flows relating to derivatives are expected to impact profit or loss in the same periods in which the cash flows are expected to occur.

Interest-bearing liabilities are denominated in AUD and USD (refer to note E3) and therefore the contractual cash flows noted in the table below may differ as a result of the foreign exchange rate that applies at the date the USD denominated instrument is settled. Any breach in financial covenants relating to financing arrangements may result in a requirement for the Group to repay the relevant loans earlier than indicated by the contractual cash flows. At reporting date, the Group was in compliance with its covenants.

It is not expected that the cash flows below could occur significantly earlier or at significantly different amounts.

	Carrying amount $m	Contractual cash flows $m	Less than 1 year $m	1-5 years $m	More than 5 years $m
2019					
Derivative financial assets	**85.1**	**85.1**	**71.5**	**13.6**	**-**
Derivative financial liabilities	**(17.6)**	**(17.6)**	**(14.8)**	**(2.8)**	**-**
Non-derivative financial liabilities					
Secured loans	**(1,539.5)**	**(1,844.0)**	**(269.5)**	**(1,113.5)**	**(461.0)**
Unsecured loans and bonds	**(1,458.6)**	**(1,741.3)**	**(665.9)**	**(1,075.4)**	**-**
Finance lease liabilities	**(30.7)**	**(78.4)**	**(10.3)**	**(10.9)**	**(57.2)**
Payables	**(931.8)**	**(931.8)**	**(929.1)**	**(2.7)**	**-**
	(3,893.1)	**(4,528.0)**	**(1,818.1)**	**(2,191.7)**	**(518.2)**
2018					
Derivative financial assets	284.0	284.0	220.0	64.0	-
Derivative financial liabilities	(6.8)	(6.8)	(6.6)	(0.2)	-
Non-derivative financial liabilities					
Secured loans	(1,381.4)	(1,608.7)	(379.9)	(894.4)	(334.4)
Unsecured loans and bonds	(1,151.6)	(1,424.0)	(95.5)	(1,328.5)	-
Finance lease liabilities	(35.1)	(85.7)	(7.8)	(18.1)	(59.8)
Payables	(813.1)	(813.1)	(807.5)	(5.6)	-
	(3,104.0)	(3,654.3)	(1,077.3)	(2,182.8)	(394.2)

The Group also has contractual commitments for the acquisition of property, plant and equipment and intangible assets, which are detailed in note G1.

Liquidity risk management

The Group aims to ensure that it has sufficient cash on demand to meet expected operational expenses, aircraft maintenance obligations and contractual commitments, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot be predicted, such as natural disasters. Due to the dynamic nature of the underlying businesses, Group Treasury aims at maintaining flexibility in funding by keeping adequate liquidity available. The Group also maintains various lines of credit, which are detailed in note E3. The Group's capital management policies are detailed in note E1. The Group's funding plans and basis of going concern are detailed in note A(c).

E8. Fair value measurements

Financial assets and liabilities are measured at either fair value or amortised cost. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, the determination of which requires the use of estimates and judgements. All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the following fair value hierarchy:

- Level 1 - Quoted prices in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted prices that are directly or indirectly observable
- Level 3 - Inputs are not observable based on market data

Derivative financial instruments

The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on Level 1 inputs. The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is based on Level 2 inputs. These financial instruments relate to forward foreign exchange and fuel hedging contracts and are principally with counterparties with investment grade credit ratings. The fair value of these instruments is determined using estimated discounted cash flows based on forward exchange market rates and fuel prices at the reporting date.

Interest-bearing liabilities

At 30 June 2018, the Group measured the fair value of Enhanced Equipment Notes (EENs) based on Level 1 inputs. As a result of the reduction in traded volumes of these instruments, the Group now measures the fair value of EENs based on Level 2 inputs. The fair value of the Group's remaining interest-bearing liabilities is determined based on Level 2 inputs by discounting the remaining contractual cash flows at the relevant credit-adjusted market interest rates at the reporting date. With the exception of the change to the EENs, there have been no transfers between levels of the fair value hierarchy during the current or prior financial years. The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurs.

Maintenance reserve deposits

The fair value of maintenance reserve deposits on leased aircraft is based on Level 3 inputs. Fair value is calculated as the present value of the estimated costs of future maintenance events, based on historical transactions with third party maintenance providers. In the Group's view, there are no reasonably possible changes in these unobservable inputs that could significantly impact the fair value measurement.

Other financial assets and liabilities carried at amortised cost

The fair value of cash and cash equivalents, receivables and payables approximate their carrying amounts largely due to the short-term nature of these instruments. The fair value of other financial assets and variable rate liabilities that are not recognised net of transaction costs approximate their carrying amounts.

	Note	Carrying amount $m	Fair value $m	Level 1 inputs $m	Level 2 inputs $m
2019					
Financial assets carried at fair value					
Derivative financial instruments		**85.1**	**85.1**	**-**	**85.1**
Financial liabilities carried at fair value					
Derivative financial instruments		**17.6**	**17.6**	**-**	**17.6**
Financial liabilities carried at amortised cost					
Aeronautic finance facilities - secured	E3	**1,316.6**	**1,369.6**	**-**	**1,369.6**
Bonds - unsecured	E3	**1,458.6**	**1,506.8**	**-**	**1,506.8**
Bank loans - secured	E3	**222.9**	**225.0**	**-**	**225.0**
Finance lease liabilities	E3	**30.7**	**30.7**	**-**	**30.7**
2018					
Financial assets carried at fair value					
Derivative financial instruments		284.0	284.0	-	284.0
Financial liabilities carried at fair value					
Derivative financial instruments		6.8	6.8	-	6.8
Financial liabilities carried at amortised cost					
Aeronautic finance facilities - secured	E3	1,160.8	1,197.4	316.5	880.9
Bonds - unsecured	E3	1,151.6	1,177.6	-	1,177.6
Bank loans - secured	E3	220.6	225.0	-	225.0
Finance lease liabilities	E3	35.1	35.1	-	35.1

E9. Offsetting financial assets and liabilities

The Group enters into contractual arrangements such as the International Air Transport Association (IATA) and International Swaps and Derivatives Association (ISDA) Master Agreements where, upon the occurrence of a credit event (such as default), a termination value is calculated and only a single net amount is payable in settlement of all transactions that are capable of offset under the contractual terms.

Balances relating to the Group's IATA agreements do not meet the criteria for offsetting in the consolidated statement of financial position. This is because the Group does not have any currently legally enforceable right to offset recognised amounts, as the right to offset is enforceable only on the occurrence of a credit event.

Offsetting is applied to derivatives balances in the consolidated statement of financial position where the Group has a legally enforceable right to set off and there is an intention to settle on a net basis.

The following table sets out the carrying amounts of recognised financial assets and liabilities that are subject to the above agreements.

2019	Note	Gross financial assets and liabilities recognised $m	Amounts offset $m	Net amounts presented[1] $m	Amounts not offset $m	Net amount $m
Financial assets						
Receivables	C1	**21.0**	**-**	**21.0**	**(19.5)**	**1.5**
Derivative financial assets		**98.7**	**(13.6)**	**85.1**	**(17.4)**	**67.7**
		119.7	**(13.6)**	**106.1**	**(36.9)**	**69.2**
Financial liabilities						
Payables	C5	**(29.4)**	**-**	**(29.4)**	**22.1**	**(7.3)**
Derivative financial liabilities		**(31.2)**	**13.6**	**(17.6)**	**14.8**	**(2.8)**
		(60.6)	**13.6**	**(47.0)**	**36.9**	**(10.1)**

2018	Note	Gross financial assets and liabilities recognised $m	Amounts offset $m	Net amounts presented[1] $m	Amounts not offset $m	Net amount $m
Financial assets						
Receivables	C1	32.7	-	32.7	(15.2)	17.5
Derivative financial assets		326.1	(42.1)	284.0	(5.3)	278.7
		358.8	(42.1)	316.7	(20.5)	296.2
Financial liabilities						
Payables	C5	(20.4)	-	(20.4)	15.2	(5.2)
Derivative financial liabilities		(48.9)	42.1	(6.8)	5.3	(1.5)
		(69.3)	42.1	(27.2)	20.5	(6.7)

(1) Balances may not equate to the corresponding line item presented on the face of the consolidated statement of financial position or in the supporting notes. The difference relates to financial assets and financial liabilities that are not subject to master netting arrangements and are therefore not in scope for offsetting disclosures.

F. Group structure

This section sets out the legal structure of the Group. It provides information on business combinations, details on controlled entities, joint ventures, associates, non-controlling interests and unconsolidated structures.

F1. Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Acquisition-related costs are expensed as incurred. If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. The Group did not complete any acquisitions during the current or prior financial years. Refer to note D3 for the accounting policy regarding goodwill.

F2. Investment accounted for using the equity method

The Group accounts for investments in associates using the equity method. An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but it is not control or joint control of those policies.

Under the equity method, the investment is initially recognised at cost. Subsequent to acquisition, the Group's share of profits or losses is recognised in the consolidated statement of profit or loss and its share of movements in reserves is recognised in reserves. These movements are adjusted against the carrying amount of the investment. Dividends receivable from the associate reduce the carrying amount of the investment.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate and are eliminated against the carrying amount of the investment. Unrealised losses are also eliminated in the same way unless the transaction provides evidence of impairment.

The investment is assessed at each reporting date to determine if there is objective evidence of impairment as a result of an event that impacts estimated future cash flows and can be reliably measured. An impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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 principal activity of Virgin Samoa up to November 2017 was the operation of airline activities between Samoa, Australia and New Zealand. 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.

	2019 $m	2018 $m
100%		
Revenue and income	-	20.4
Profit	-	7.2
Other comprehensive income	-	-
Total comprehensive income	-	7.2
Group share		
Carrying value	-	8.2
Dividends received	8.2	-
Revenue and income	-	10.0
Profit	-	3.5
Other comprehensive income	-	-
Total comprehensive income	-	3.5

The Group had no contingent liabilities or capital commitments relating to its interest in Virgin Samoa as at 30 June 2019 (2018: nil).

F3. Controlled entities

The consolidated financial statements comprise the financial statements of the Company and the entities it controls. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Controlled entities are consolidated from the date on which control commences and are de-consolidated from the date that control ceases. Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Significant judgement may be required to determine if an entity is controlled by the Company. The Company consolidates a number of entities in which it holds minimal or no issued capital. There are no significant restrictions on the Company's ability to access or use the assets and settle the liabilities of the Group, other than those disclosed in note E2.

The ultimate parent entity in the Group is Virgin Australia Holdings Limited. The consolidated financial statements include the following subsidiaries which are wholly-owned in the current and prior financial years unless otherwise noted.

	Country of incorporation
Companies	
737 2012 No.1 Pty. Ltd.(4)	Australia
737 2012 No. 2 Pty Ltd(4)	Australia
A.C.N. 098 904 262 Pty Ltd(1)	Australia
Captivevision Capital Pte. Ltd.(5)	Singapore
F11305 Pte. Ltd.(5)	Singapore
Red Jet Foundation Pty Ltd	Australia
Short Haul 2014 No. 1 Pty Ltd(4)	Australia
Short Haul 2014 No. 2 Pty Ltd(4)	Australia
Short Haul 2016 No. 1 Pty Ltd(4)	Australia
Short Haul 2016 No. 2 Pty Ltd(4)	Australia
Short Haul 2017 No. 1 Pty Ltd	Australia
Short Haul 2017 No. 2 Pty Ltd(4)	Australia
Short Haul 2017 No. 3 Pty Ltd	Australia
Short Haul 2018 No. 1 Pty Ltd(4)	Australia
Skywest Airlines Pte. Ltd.(5)	Singapore
Skywest Airlines (S) Pte. Ltd.(5)	Singapore
TA Holdco (Singapore) Pte. Ltd.(1)	Singapore
Tiger Airways Australia Pty Limited(1)	Australia
Tiger Airways Australia SPV Pty Ltd(1)(5)	Australia
Tiger International Number1 Pty Ltd(3)	Australia
Torque Solutions (Australia) Pty. Ltd.(2)	Australia
VA Borrower 2019 No. 1 Pty Ltd(4)(6)	Australia
VA Hold Co Pty Ltd	Australia
VA Lease Co Pty Ltd(4)	Australia
VA Regional Leaseco Pty Ltd	Australia
VAH Newco No.1 Pty Ltd(1)	Australia
VAH Newco No.2 Pty Ltd(1)(5)	Australia
VB 800 2009 Pty Ltd	Australia
VB Investco Pty Ltd(5)	Australia
VB Leaseco No 2 Pty Ltd	Australia
VB Leaseco Pty Ltd(1)	Australia
VB LH 2008 No. 1 Pty Ltd	Australia
VB LH 2008 No. 2 Pty Ltd	Australia
VB PDP 2010-11 Pty Ltd	Australia

F3. Controlled entities (continued)

	Country of incorporation
VB Ventures Pty Ltd	Australia
VBNC5 Pty Ltd	Australia
Velocity Frequent Flyer 1 Pty Ltd(2)	Australia
Velocity Frequent Flyer 2 Pty Ltd(2)	Australia
Velocity Frequent Flyer Holdco Pty Ltd(2)	Australia
Velocity Frequent Flyer Pty Ltd(2)	Australia
Velocity Rewards Pty Ltd(2)	Australia
Virgin Australia 2013-1 Issuer Co Pty Ltd(4)	Australia
Virgin Australia Airlines Holdings Pty Ltd(1)	Australia
Virgin Australia Airlines (NZ) Limited(3)	New Zealand
Virgin Australia Airlines Pty Ltd(1)	Australia
Virgin Australia Airlines (SE Asia) Pty Ltd(3)	Australia
Virgin Australia Cargo Pty Ltd(1)	Australia
Virgin Australia Holidays Pty Ltd	Australia
Virgin Australia International Airlines Pty Ltd(3)	Australia
Virgin Australia International Holdings Pty Ltd(3)	Australia
Virgin Australia International Operations Pty Ltd(1)	Australia
Virgin Australia (NZ) Holdings Pty Ltd(1)(5)	New Zealand
Virgin Australia (NZ) Employment and Crewing Limited	New Zealand
Virgin Australia Regional Airlines Pty Ltd(1)	Australia
Virgin Tech Pty Ltd(1)	Australia
Trusts	
Key Employee Performance Plan Trust(7)	Australia
The Loyalty Trust(2)(7)	Australia
Virgin Australia 2013-1A Trust(8)	Australia
Virgin Australia 2013-1B Trust(8)	Australia
Virgin Australia 2013-1C Trust(8)	Australia

(1) Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 dated 28 September 2016, these controlled entities are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports for the financial year ended 30 June 2019. Refer to note F5 for further information.

(2) The Company owns 100% of the ordinary share capital of these entities but recognises a 35.28% non-controlling interest in these entities as a result of the issue of convertible notes to third parties. Refer to note F4 for further information.

(3) The Company consolidates these entities in accordance with the requirements of Australian accounting standards, despite holding minimal issued capital as the Company is exposed to or has rights to variable returns from its involvement with these entities and has the ability to affect those returns through its power over the entities and they are therefore controlled entities of the Company.

(4) The issued capital of these entities is pledged as security for the aeronautic finance facilities in note E3.

(5) These entities have been placed into voluntary (solvent) liquidation.

(6) This entity was incorporated on 24 May 2019.

(7) The Company administers the Key Employee Performance Plan Trust and The Loyalty Trust through appointed Trustees.

(8) The Company consolidates these trust entities despite holding no issued capital as the Company is exposed to or has rights to variable returns from its involvement with these trust entities and has the ability to affect those returns through its power over the trust entities and therefore controls these trust entities.

F4. Non-controlling interests

Profit or loss and each component of other comprehensive income are attributed to equity holders of the Group and to non-controlling interests, even if this results in the non-controlling interests having a deficit balance. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Affinity Equity Partners holds a 34.82% interest in the Velocity Frequent Flyer Group (VFF Group). Other non-controlling interests hold an additional 0.52% interest in the VFF Group, including 0.23% relating to a management incentive plan.

The VFF Group consists of the following entities, all with a principal place of business in Australia:

- Velocity Frequent Flyer Holdco Pty Ltd
- Velocity Frequent Flyer 1 Pty Ltd
- Velocity Frequent Flyer 2 Pty Ltd
- Velocity Frequent Flyer Pty Ltd
- Velocity Rewards Pty Ltd (as Trustee for the Loyalty Trust)
- The Loyalty Trust
- Torque Solutions (Australia) Pty Ltd

The following table summarises the financial information of the VFF Group, before intra-group eliminations.

	2019 $m	2018 $m
Revenue and income	**411.0**	372.0
Net profit after tax	**95.6**	78.5
Other comprehensive income	**-**	-
Total comprehensive income	**95.6**	78.5
Profit allocated to non-controlling interest (2019: 35.34%) (2018: 35.28%)	**33.7**	27.7
Other comprehensive income allocated to non-controlling interest (2019: 35.34%) (2018: 35.28%)	**-**	-
Current assets	**643.7**	522.6
Non-current assets	**201.7**	178.1
Current liabilities	**(539.7)**	(468.8)
Non-current liabilities	**(222.9)**	(221.7)
Net assets	**82.8**	10.2
Net assets attributable to non-controlling interest (2019: 35.34%) (2018: 35.28%)	**29.2**	3.6
Net increase/(decrease) in cash and cash equivalents[1]	**128.7**	(123.0)
Equity distributions paid to non-controlling interests	**29.1**	47.1

(1) The movement in cash and cash equivalents includes a $150.0 million decrease in the prior year due to funds provided to a related party in relation to a loan facility.

F5. Deed of Cross Guarantee

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 dated 28 September 2016, the wholly-owned subsidiaries identified in note F3 are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of a financial report and Directors' Report.

It is a condition of the Corporations Instrument that the Company and each of the subsidiaries eligible to obtain relief under the Corporations Instrument enter into a Deed of Cross Guarantee (Deed). The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of those subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the *Corporations Act 2001*, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries that are a party to the Deed have also given similar guarantees in the event that the Company is wound up. The Deed came into effect on 18 June 2007.

It is also a condition of the Deed that consolidated financial information of the Company and the controlled entities which are a party to the Deed (the Deed Group) is presented.

(a) Consolidated statement of profit or loss of the Deed Group

	2019 $m	2018 $m
Revenue and income	**4,387.1**	4,320.2
Impairment losses on cash-generating units	**(147.2)**	(88.3)
Impairment losses on other assets	**-**	(47.8)
Onerous contract expenses	**(47.4)**	(58.5)
Net operating expenditure	**(4,210.7)**	(4,157.8)
Loss before net finance costs and tax	**(18.2)**	(32.2)
Finance income	**32.5**	32.7
Finance costs	**(184.3)**	(172.1)
Net finance costs	**(151.8)**	(139.4)
Loss before tax	**(170.0)**	(171.6)
Income tax expense	**(12.5)**	(352.1)
Loss	**(182.5)**	(523.7)

(b) Consolidated statement of profit or loss and other comprehensive income and retained earnings of the Deed Group

	2019 $m	2018 $m
Loss(1)	**(182.5)**	(523.7)
Other comprehensive income/(loss) that may be reclassified subsequently to profit or loss	**(173.9)**	226.8
Other comprehensive income/(loss), net of tax	**(173.9)**	226.8
Total comprehensive loss	**(356.4)**	(296.9)
Retained earnings at 1 July	**(1,440.9)**	(917.2)
Transfers to reserves	**173.9**	(226.8)
Movement in retained earnings due to entities entering the Deed	**-**	-
Retained earnings at 30 June	**(1,623.4)**	(1,440.9)

(1) The Deed Group impaired the carrying value of its investments in subsidiaries during the prior financial year to reflect the net asset value of its subsidiaries.

F5. Deed of Cross Guarantee (continued)

(c) Consolidated statement of financial position of the Deed Group

	2019 $m	2018 $m
Current assets		
Cash and cash equivalents	**1,385.9**	1,171.8
Receivables	**1,178.4**	1,279.7
Inventories	**49.3**	46.4
Derivative financial instruments	**71.5**	220.0
Other financial assets	**36.7**	17.6
Other	**2.6**	2.7
Total current assets	**2,724.4**	2,738.2
Non-current assets		
Receivables	**182.6**	191.6
Derivative financial instruments	**13.6**	64.0
Other financial assets	**480.1**	453.1
Deferred tax assets	**57.8**	-
Property, plant and equipment	**3,188.4**	2,762.4
Intangible assets	**499.4**	533.5
Other	**10.3**	12.9
Total non-current assets	**4,432.2**	4,017.5
Total assets	**7,156.6**	6,755.7
Current liabilities		
Payables	**1,340.0**	1,206.0
Interest-bearing liabilities	**663.4**	102.2
Derivative financial instruments	**14.8**	6.6
Provisions	**233.2**	260.7
Unearned revenue	**476.1**	451.8
Total current liabilities	**2,727.5**	2,027.3
Non-current liabilities		
Payables	**12.7**	18.7
Interest-bearing liabilities	**2,377.5**	2,319.7
Derivative financial instruments	**2.8**	0.2
Provisions	**293.8**	267.1
Unearned revenue	**36.3**	58.9
Total non-current liabilities	**2,723.1**	2,664.6
Total liabilities	**5,450.6**	4,691.9
Net assets	**1,706.0**	2,063.8
Equity		
Share capital	**2,255.0**	2,255.4
Reserves	**1,074.4**	1,249.3
Retained earnings	**(1,623.4)**	(1,440.9)
Total equity	**1,706.0**	2,063.8

F6. Parent entity disclosures

The ultimate parent entity of the Group is Virgin Australia Holdings Limited. Information relating to the parent entity is set out below.

	2019 $m	2018 $m
Results of the parent entity		
Loss	**(501.3)**	(471.3)
Total comprehensive loss	**(501.3)**	(471.3)
Financial position of the parent entity		
Current assets	**477.9**	678.0
Total assets	**2,768.4**	3,245.1
Current liabilities	**(1,280.1)**	990.7
Total liabilities	**(2,178.7)**	2,153.7
Net assets	**589.7**	1,091.4
Share capital	**2,255.0**	2,255.4
Share-based payments reserve	**16.1**	16.1
Retained earnings	**(1,681.4)**	(1,180.1)
Total equity	**589.7**	1,091.4

The Company impaired the carrying value of its investments in subsidiaries during the current and prior financial years to reflect the net asset value of its subsidiaries.

The Company has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of a number of its subsidiaries. Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed, are disclosed in note F5.

The Company does not have any contingent assets or contingent liabilities at 30 June 2019 (2018: nil).

The Company does not have any contractual commitments for the acquisition of property, plant and equipment at 30 June 2019 (2018: nil).

G. Other items

This section sets out other disclosures that may be relevant to understanding the financial position and performance of the Group.

G1. Commitments

(a) Commitments

The Group has capital expenditure commitments to purchase property, plant and equipment and intangibles contracted at the reporting date but not recognised as liabilities. These commitments are predominantly in US dollars. US dollar amounts are translated to Australian dollars at the 30 June 2019 closing exchange rate of 0.7020 (2018: 0.7404). The Group's capital expenditure commitments as at 30 June 2019 are $4,240.6 million (2018: $3,814.2 million).

G1. Commitments (continued)

(b) Finance leases – as lessee

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases.

Assets held under finance leases are initially recognised at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequently, the assets are depreciated over the term of the relevant lease, or, where it is likely the Group will obtain ownership of the asset, the life of the asset. Minimum lease payments made under finance leases are apportioned between finance cost and the reduction of the outstanding liability. The finance cost is allocated to each period during the lease term to produce a constant periodic rate of interest on the remaining balance of the liability.

The Group leases buildings, telecommunications and aircraft and aeronautical related assets under finance leases.

During a prior financial year, the Group entered into a finance lease agreement for the sale and leaseback of the Brisbane Hangar. The lease term is to 2047 and there is an additional 15 year option to extend the lease to 2062. This finance lease does not contain an option to purchase the asset at the end of the term of the lease.

During a prior financial year, the Group entered into finance lease agreements for five Fokker F100 aircraft. The lease terms extend to August 2020. The finance leases contain options to purchase the asset throughout the term of the lease.

	Future minimum lease payments		Interest		Present value of minimum lease payments	
	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m
Less than one year	**10.3**	7.8	**2.8**	3.0	**7.5**	4.8
Between one and five years	**10.9**	18.1	**9.1**	9.5	**1.8**	8.6
More than five years	**57.2**	59.8	**35.8**	38.1	**21.4**	21.7
	78.4	85.7	**47.7**	50.6	**30.7**	35.1

(c) Operating leases – as lessee

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

The Group leases property, plant and equipment, principally aircraft, under non-cancellable operating leases with terms of one to eleven years from 30 June 2019 (2018: one to twelve years).

Aircraft lease payments are payable in US dollars. There are options on some leases to renew the leases at the end of the original lease period. Some leases provide for additional rent payments that are based on changes in a local price index. There are no restrictions imposed by the leases in relation to additional debt raising or entering into further leases. In accordance with normal industry practice, the Group is responsible for maintenance costs of operating leased aircraft for the term of the lease and these costs are not included in the future minimum rentals below.

Contingent rentals are payable in relation to certain property leases based on passenger numbers.

	2019 $m	2018 $m
Future minimum rentals under non-cancellable operating leases:(1)		
Less than one year	**506.8**	487.2
Between one and five years	**1,439.0**	1,537.0
More than five years	**304.0**	742.9
	2,249.8	2,767.1

(1) Future minimum rentals include nil (2018: $26.7 million) amounts that do not relate to minimum lease payments.

G2. Contingent liabilities

A contingent liability is a possible obligation arising from past events which will only be confirmed by the occurrence or non-occurrence of future events, not wholly within the control of the Group, or a present obligation arising from past events that is not probable or cannot be measured reliably. Contingent liabilities are not recognised.

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. Refer to note E3 for further information on facility limits.

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.

The directors are of the opinion that there is a low likelihood of having to make payments under these facilities.

G3. Share-based payments

The Group established senior executive option plans and share plans in prior financial years. The fair value of options and performance rights granted are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options and performance rights. The measurement of the fair value requires the use of estimates and judgements.

The fair value of senior executive option plans at grant date is determined using a Black-Scholes, Binomial or Monte Carlo option pricing model depending on the terms and conditions of each option, that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The fair value of employee share plan performance rights at the grant date is independently determined using a discounted cash flow technique taking into account the share price at the grant date and dividends forgone over the vesting period of the performance rights.

The fair value of the option granted excludes the impact of any service and non-market vesting conditions (for example, profitability and sales growth targets). Service and non-market vesting conditions are included in assumptions about the number of options and performance rights that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options and performance rights that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimates, such that the amount ultimately recognised as an expense is based on the number of options and performance rights that meet the related service and non-market performance conditions at the vesting date.

Upon exercise of options and performance rights, the balance of the share-based payments reserve relating to those options and performance rights is transferred to share capital. The market value of shares issued to employees for no cash consideration under the employee share scheme is recognised as an employee benefits expense with a corresponding increase in equity when the shares vest.

(a) Share-based payments expense

	2019 $'000	Restated[2] 2018 $'000
Rights issued under senior executive plan[1]	**6,787**	(335)
Options issued under senior executive option plans	**-**	-
Shares issued under employee share plans	**-**	-
Shares issued under employee short term incentive remuneration plans	**-**	-
	6,787	(335)

(1) The value of the Group's cash-settled share-based payment (Velocity LTI) decreased during the prior financial year.

(2) The comparative value of the Group's cash-settled share-based payment (Velocity LTI) has been restated to correctly include historical distributions to equity holders in the estimation of the disposal value that might be earned by the investors when assessing the achievement of the performance hurdle rates. The effect of the restatement is to increase the LTI benefit by $420 thousand in the year ended 30 June 2018. There has been no change to the amounts paid to KMP. This adjustment is only to estimate the value that might be earned should a qualifying exit event occur.

G3. Share-based payments (continued)

(b) Senior executive option plans

The Group established senior executive option plans (SEOP) in prior financial years. Under each plan, senior executives were granted zero exercise price options. Each option was convertible into one ordinary share. Options vested were exercisable no later than 12 months after vesting, after which time they lapsed. The key conditions of the options related to the growth in the Company's Total Shareholder Return (TSR) over a three year period (measured at the conclusion of the vesting period) and meeting corporate performance measures determined by the Board, specific to each plan.

The following table sets out the percentages of the options that vested depending on the growth in the Company's TSR over a three year period relative to the median of the S&P/ASX 200 Index (excluding financial services and resource companies) as at the testing date. TSR on the testing date is determined using the Volume Weighted Average Price (VWAP) for VAH shares traded on the ASX on each of the 30 trading days up to and including the relevant date.

The Group's relative TSR growth	% of options that vest
Below 50th percentile	0%
50th percentile	50%
Between 51st and 74th percentile	2% (for each percentile ranking above 50%)
75th percentile	100%

Details of the options granted are set out below:

Option plan	SEOP 20	Total
Grant and issue date	20-Dec-13	
Expiry dates	30-Jun-17[1]	
	30-Jun-18[2]	
2019	**'000**	**'000**
Number of options at 1 July	-	-
Options granted	-	-
Options forfeited	-	-
Options lapsed	-	-
Options exercised	-	-
Number of options on issue at 30 June	-	-
Number of options vested and exercisable at 30 June	-	-
Weighted average exercise price ($)	**0.00**	**0.00**
Weighted average share price at date of exercise ($)	**N/A**	
2018		
Number of options at 1 July	574	574
Options granted	-	-
Options forfeited	-	-
Options lapsed	-	-
Options exercised	(574)	(574)
Number of options at 30 June	-	-
Number of options vested and exercisable at 30 June	-	-
Weighted average exercise price ($)	0.00	0.00
Weighted average share price at date of exercise ($)	0.19	

(1) Of the options that vested, 60% vested 12 months before this date.
(2) Of the options that vested, 40% vested 12 months before this date.

The weighted average remaining contractual life of share options outstanding at the end of the financial year was nil as there are no options outstanding (2018: nil).

G3. Share-based payments (continued)

(b) Senior executive option plans (continued)

The key conditions of each plan are set out below.

Plan	Key conditions
SEOP Issue 20	• These were granted to the CEO. • 50% of the options were exercisable if there was growth in the Company's TSR over a three year period commencing 1 July 2013. • The remaining 50% of the options were exercisable if corporate performance measures were met. The performance measures included specific targets in relation to the growth of corporate and government revenue targets, performance of Tigerair Australia, performance of the Velocity Frequent Flyer program and Group safety outcomes.

Velocity LTI

On 14 December 2015, the Group established a share-based payment (Velocity LTI) for key executives in the Velocity Frequent Flyer Group. At 30 June 2019, 17,120 (2018: 10,148) Co-Investment Participation Notes (CPNs) were on issue and 68,500 (2018: 62,500) Profit Participation Notes (PPNs) were on issue. CPNs and PPNs provide a right to receive an economic benefit (which can be delivered at the discretion of the issuing company in a number of ways, including in the form of cash or equity instruments). No rights have vested or lapsed during the current or prior financial years. The exercise price per right is nil. The CPNs and PPNs are classified as cash-settled share-based payments. As a result, the fair value is required to be remeasured each financial year. The fair value as at 30 June 2019 is $166.53 (2018: $8.69) per right for CPNs and $276.47 (2018: $23.14) per right for PPNs.

The Velocity LTI entitles the recipient to participate in the upside value of the business that may be generated in the future and is subject to continuing employment and good leaver provisions. The entitlements only vest on the occurrence of a pre-defined exit event where the investors (Virgin Australia Group or Affinity Equity Partners) dispose of their interest in the Velocity Frequent Flyer Group. The amount that may be earned is variable depending on agreed hurdle rates in the disposal value earned by the investors.

The Velocity Frequent Flyer Holdco Pty Ltd Board or Velocity Frequent Flyer Board (VFF Board) may exercise discretion in determining LTI vesting if external conditions outside of the control of the senior executive team have impacted results unfairly, positively or negatively. The VFF Board is cognisant of ensuring any exercise of discretion reinforces the Group's remuneration philosophy.

There is no pre-defined exit or vesting date.

G4. Related parties

(a) Key management personnel disclosures

Key management personnel (KMP) are those persons having responsibility and authority for planning, directing and controlling the activities of the entity, directly or indirectly, including any director. The total remuneration of KMP of the Group is set out below.

	2019 $'000	Restated[1] 2018 $'000
Short term employee benefits	**7,209**	9,608
Long term benefits[2]	**(1,219)**	494
Termination benefits	**3,062**	-
Post-employment benefits	**228**	214
Share-based payments	**8,799**	(252)
	18,079	10,064

(1) The comparative long term benefits of the CEO of VFF have been restated to correctly include historical distributions to equity holders in the estimation of the disposal value that might be earned by the investors when assessing the achievement of the performance hurdle rates. The effect of the restatement is to increase the long term benefits by $55 thousand in the year ended 30 June 2018. There has been no change to the amounts paid to KMP. This adjustment is only to estimate the value that might be earned should a qualifying exit event occur.

(2) Long term benefits are negative in the current financial year as unused benefits are forfeited on the date KMP cease their employment.

During the current and prior financial years, there were no loans made, guaranteed, secured or outstanding in relation to KMP or their related parties.

Personal travel by KMP and their related parties is undertaken on terms no more favourable than those of employees, in accordance with Group policy.

(b) Other related party transactions and balances

The Group has a related party relationship with its associate, Virgin Samoa Limited (Virgin Samoa). The Group provided certain airline services and wet leases aircraft to Virgin Samoa up to the cessation of operations of Virgin Samoa in November 2017.

On 4 July 2014, the Group appointed Non-Executive Directors to the Board of Virgin Australia Holdings Limited ('the Board") from two of its major airline shareholders, Etihad Airways P.J.S.C. (Etihad) and Singapore Airlines Limited (Singapore). As a result of the Board appointments, these shareholders became related parties of the Group.

On 16 November 2016, the Group appointed two Non-Executive Directors to the Board from another two of its major airline shareholders, HNA Innovation Ventures (Hong Kong) Co Limited (HNA) and Nanshan Capital Holdings Limited (Nanshan). As a result of the appointments, these shareholders became related parties of the Group. The tables on the following pages include related party transactions with HNA and Nanshan from this date.

Tiger Airways Holdings Limited (Tiger Holdings) is a related party of the Group as a result of the Group's relationships with Singapore. Singapore accounts for Tiger Holdings as a joint venture and accounts for the Group as an associate, therefore Tiger Holdings is a related party of the Group. Tiger Holdings provided services to the Group relating to leasing of aircraft and other support services. The Group also pays Tiger Holdings a brand name royalty.

The Group has codesharing arrangements with some of its related party shareholders. The Group also purchases airline goods and services and leases aircraft from its related party shareholders and sells airline goods and services to its related party shareholders. In addition, some of these shareholders participate in the Group's Velocity Frequent Flyer program and pay a participation fee in relation to this.

Related party transactions are made on terms equivalent to those that prevail in arm's length transactions or on a cost plus margin basis.

G4. Related parties (continued)

(b) Other related party transactions and balances (continued)

Transactions with related parties

	2019 $'000	2018 $'000
Sale of goods and services		
Revenue for wet lease to associate	-	8,589
Revenue for airline services to associate	-	4,876
Sale of goods and services to Tiger Holdings	**5,290**	4,891
Revenue for ticket sales collected by related party shareholders	**57,395**	57,446
Participation fee revenue for Velocity Frequent Flyer program from related party shareholders	**33,590**	29,886
Purchase of goods and services		
"Tigerair" brand name royalty paid to Tiger Holdings	**1,798**	1,920
Purchase of goods and services from Tiger Holdings	**1,781**	4,959
Purchase of goods and services from related party shareholders	**338,006**	268,366
Dividends received		
Dividends from associate	**8,200**	-

Outstanding balances at reporting date with related parties

	2019 $'000	2018 $'000
Current receivables		
Related party shareholders (sales of goods and services)	**3,272**	2
Virgin Samoa (sales of goods and services)	-	2,629
Tiger Holdings (sales of goods and services)	**5,359**	5,081
Current payables		
Related party shareholders (purchases of goods and services)	**39,590**	47,901
Tiger Holdings (purchases of goods and services)	**360**	415
Virgin Samoa (purchases of goods and services)	-	2,250

No provision for doubtful receivables has been raised in relation to any outstanding balances and no expense has been recognised in respect of bad or doubtful debts due from related parties.

The Group is committed to nil (2018: $1,825 thousand) aircraft and engine operating lease payments to Tiger Holdings. As at 30 June 2018, the remaining lease commitment period was 5 months.

The Group is committed to aircraft operating lease payments to related party shareholders totalling $115,972 thousand (2018: $138,552 thousand). As at 30 June 2019 the remaining lease commitment periods ranged from 26 to 78 months (2018: 38 to 90 months).

G5. Auditor's remuneration

Details of amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services are set out below:

	2019 $'000	2018 $'000
Audit and review services		
Audit and review of financial statements	**1,945**	2,164
Other services		
Other assurance services	**51**	-
Taxation services[1]	**153**	49
Other[2]	**625**	-
	829	49

(1) Taxation services in 2019 comprise services related to the outside equity interest in the VFF Group.

(2) Other services in 2019 comprised due diligence and other transaction services related to the outside equity interest in the VFF Group.

G6. Events subsequent to reporting date

On 28 August 2019, the Group announced a number of cost base initiatives, including an organisational rightsizing program targeting a reduction of 750 roles and annualised cost savings of $75.0 million and the renegotiation of key supplier contracts targeting cost savings of $50.0 million.

On 16 September, the Group announced that it had entered into negotiations with Affinity Equity Partners to buy back Affinity's 34.82% interest in the Velocity Frequent Flyer Group for $700.0 million.

In the opinion of the directors, no other matters or circumstances have arisen since the reporting date which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Directors’ declaration

In accordance with a resolution of the directors of Virgin Australia Holdings Limited (the Company), the directors declare that:

(1) in their opinion:

(a) the consolidated financial statements of the Group for the financial year ended 30 June 2019, and the notes to those financial statements, are in accordance with the *Corporations Act 2001* (Cth), including:

(i) section 296 (compliance with accounting standards); and

(ii) section 297 (true and fair view); 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; and

(2) there are reasonable grounds to believe that the Company and the wholly-owned subsidiaries identified and marked [(1)] in note F3 to the consolidated financial statements will be able to meet any obligations or liabilities to which they are, or may become, subject because of the Deed of Cross Guarantee between the Company and those wholly-owned subsidiaries as referred to in note F5 to the consolidated financial statements; and

(3) the directors have been given the declarations required by section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2019; and

(4) the notes to the consolidated financial statements include an explicit and unreserved statement of compliance with International Financial Reporting Standards (see note A(b)).

Signed on behalf of the directors:

Elizabeth Bryan
Director

Paul Scurrah
Director

Sydney

This declaration is made on 17 September 2019

KPMG

Independent Auditor's Report

To the shareholders of Virgin Australia Holdings Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Virgin Australia Holdings Limited (the Company).

In our opinion, the accompanying Financial Report of the ***Group*** is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2019;
- 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 year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

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Key Audit Matters

The ***Key Audit Matters*** we identified are:

- Recoverable amount of non-financial assets of the Virgin Australia International and Tigerair Australia CGUs;
- Reliance on IT systems to recognise airline passenger revenue; and
- Recognition of unearned loyalty program revenue.

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverable amount of non-financial assets of the Virgin Australia International and Tigerair Australia CGUs

Refer to Note D4 to the Financial Report

The key audit matter	How the matter was addressed in our audit
Assessing the recoverable amount of the non-financial assets of the Virgin Australia (VA) International and Tigerair Australia cash generating units (CGUs) is a key audit matter due to the high level of judgement applied by us when assessing the Group's: • Significant forward-looking assumptions in the Tigerair Australia CGU value in use (VIU) model, which are impacted by fluctuations in consumer sentiment and changes in fuel prices impacting the accuracy of historical and current forecasts. We focused on: – forecast key performance metrics including capacity, passenger numbers, and revenue yields; – forecast fuel prices and foreign exchange rates; – forecast maintenance expenditure; and – the discount rate which is complicated in nature and varies according to the conditions and environment the CGU is subject to from time to time. • Significant assumptions in determining the recoverable amounts of the individual assets to which the impairment loss was allocated in relation to the VA International and Tigerair Australia CGUs. The Group identified an impairment of $105.0 million relating to the Tigerair Australia CGU	Our procedures included: In assessing the significant forward looking assumptions in the Tigerair Australia CGU value in use model: • Working with our valuation specialists we considered the appropriateness of the value in use method applied by the Group to perform the annual test of non-financial assets for impairment against the requirements of the accounting standards. • We compared the forecast cash flows contained in the value in use model to forecasts presented to the Board. • We considered the accuracy of previous forecasts to inform our evaluation of forecasts incorporated in the value in use model. We noted the impact of fluctuations in consumer sentiment and fuel prices on the Group's previous forecast, for use in further testing. • Working with our valuation specialists, we challenged significant forecast cashflow assumptions in the value in use model in light of the fluctuations in consumer sentiment and changes in fuel prices, as follows: – we assessed forecast key performance metrics including capacity, passenger numbers, and revenue yields through comparison to historical performance, our knowledge of the Group and industry trends; – we assessed fuel prices and foreign

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and $47.6 million relating to the VA International CGU. Accounting standards require the impairment to be allocated to assets in the applicable CGUs. This further increased our audit effort as a result of the level of judgement applied by us when auditing the assumptions in the Group's determination of recoverable amounts of the individual assets to which the impairment loss was allocated. In addressing this key audit matter, we involved senior team members including valuation specialists.	exchange rates against published pricing sources on future trends; and – we assessed forecast maintenance expenditure against the Group's forward maintenance plan, and using our knowledge of the Group's fleet, and aircraft maintenance requirements. • Working with our valuation specialists, we assessed the discount rate applied in the value in use model against publicly available data of a group of comparable entities. In assessing the recoverable amounts of the individual assets to which the impairment loss was allocated in relation to the VA International and Tigerair Australia CGUs: • We assessed the competence, scope and objectivity of the Group's aircraft valuation expert. • With the involvement of our aircraft valuation specialist, we assessed the methodology used by the Group's aircraft valuation expert based on our understanding of the aviation industry and comparison with historical valuations of the Group's aircraft. • We challenged significant assumptions used by the Group in their estimate of recoverable amounts of aircraft by: – comparing individual aircraft recoverable amounts against published industry valuation sources; and – assessing the maintenance condition of aircraft based on fleet utilisation records, historical maintenance work performed and published information regarding the recommended maintenance intervals of major aircraft components. • We recalculated the impairment charge against the recorded amount disclosed. We assessed the adequacy of associated quantitative and qualitative disclosures in the financial report.

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Reliance on IT systems to recognise airline passenger revenue ($5,317.7 million)	
Refer to Note B3 and Note C7 to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
Reliance on IT systems to recognise airline passenger revenue is a key audit matter given the audit effort involved to assess the reliability of the Group's IT systems and controls used to process, record and recognise a high volume of low value passenger revenue transactions. The features of the Group's passenger revenue recognition process driving our audit effort include: • Multiple processes and transfer points of large amounts of data, between IT systems, outsourced service providers, industry bodies and other partner airlines. • The extent of reliance on the IT systems and controls used to automatically record ticket sales, including related cash receipts, and recognise revenue when carriage of a passenger is performed, in accordance with the accounting standards. • The Group's policy to recognise revenue associated with tickets which remain unused at the scheduled flight date, against the requirements of the accounting standards. This relies on information in the Group's IT systems and includes consideration of the variety of fare rules offered by the Group and the impact these can have on the ability of passengers to make changes to their ticket subsequent to the scheduled flight date. In addressing the key audit matter we involved IT specialists with the knowledge and understanding of the Group's IT systems and controls.	Our procedures included: • We considered the appropriateness of the Group's accounting policy to account for passenger revenue against the requirements of AASB 15 *Revenue from contracts with customers*. • We tested the key controls at the Group, and at the outsourced revenue processing service provider in India, relevant to the integrity of data and maintaining the operational capabilities of key ticket reservation and revenue accounting systems. This included controls related to user access and preventing unauthorised changes to these systems. We tested the effectiveness of application controls of revenue systems and processes to record passenger revenue and unearned revenue, taking into account fare structures and when carriage of a passenger is performed. • We tested key controls related to the transfer of data between IT systems, related to ticket validation, to identify processing errors. We tested manual controls performed by the outsourced service provider for processing exceptions and existence of reconciliations checking the accuracy of the output from industry bodies and other partner airlines. • We evaluated the Group's determination of the timing of the recognition of revenue for tickets which remained unused at the scheduled flight date based on our understanding of the variety of fare rules offered by the Group. • We tested the reconciliation of the unearned passenger revenue balance against system reports detailing sales made to individual passengers. We also selected a sample of unearned passenger revenue amounts at period end and checked the: – cash received to the bank statements; and – scheduled flight date, occurring subsequent to period end, to the date of travel on the underlying invoices.

Recognition of unearned loyalty program revenue ($497.1 million)

Refer to Note B3 and Note C7 to the Financial Report

The key audit matter

Recognition of unearned loyalty program revenue is a key audit matter due to the high level of audit effort and judgement required by us in assessing key forward looking assumptions driving the Group's unearned revenue, in turn impacting revenue recognised in the year.

In particular, we focused on the stand-alone selling price (SSP) of reward points, including the proportion of points not expected to be used in the future (expected lapse rate). This included consideration of:

- Historical redemption trends and changes made to contractual arrangements with partners in the program which have an impact on the cost of redemptions in the future, affecting the SSP.
- The expected future behaviour of members as a result of changes to the Program Rules and available channels for the earn and redemption of reward points, which will impact on both the future cost of redemptions and expected lapse rate.

The Group uses an actuarial expert in estimating the expected lapse rate.

Given the unique features of the airline industry, we used team members with relevant industry experience and our actuarial specialists in addressing this key audit matter.

How the matter was addressed in our audit

Our procedures included:

- We considered the appropriateness of the method applied by the Group to estimate the stand-alone selling price of reward points including the expected lapse rate against the requirements of the accounting standard.
- We challenged the assumptions applied by the Group in estimating the stand-alone selling price of reward points by:
  - comparing their expectations of future cost of redemptions with historical redemption trends;
  - assessing changes made to contractual arrangements with partners in the program and how these were incorporated into the estimated future cost of redemptions; and
  - evaluating changes made to Program Rules and to the available channels to redeem reward points for their impact to the Group's expected future cost of redemptions.
- We involved our actuarial specialists in our assessment of the methodology used by the actuarial expert engaged by the Group to estimate the expected lapse rate. This included:
  - the comparison of forward looking assumptions relating to member behaviour to historical trends;
  - evaluating changes made to the Program Rules and to the available channels to earn and redeem reward points for their impact on the forward looking assumptions of member behaviour in the Group's estimate of the lapse rate; and
  - assessing the outcome of assumptions relating to member redemption behaviour made in previous years against actual outcomes to identify areas of increased uncertainty to focus our testing in the current year.
- We assessed the competence, scope and

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	objectivity of the Group's actuarial expert. • We checked the accuracy of historical points data used in estimating the stand-alone selling price and expected lapse rate against source system reports. • We assessed the adequacy of disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.

Other Information

Other Information is financial and non-financial information in Virgin Australia Holdings Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or the Company, or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

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Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Virgin Australia Holdings Limited for the year ended 30 June 2019, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 22 to 37 of the Directors' report for the year ended 30 June 2019.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

John Wigglesworth
Partner

Trent Duvall
Partner

Sydney
17 September 2019

Shareholder information

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below. The information is current at 6 September 2019, except where otherwise indicated.

Substantial holders

The names of substantial holders in the Company, and the number of ordinary shares which each substantial holder and the substantial holder's associates have a relevant interest in, as disclosed in substantial holding notices received by the Company, are set out below. For details of the related bodies corporate of the substantial holders who also hold relevant interests in the ordinary shares of the Company, refer to the substantial holding notices lodged under the Company's code (VAH) with the ASX.

Shareholder	Number of ordinary shares	Voting power %
EAG Investment Holding Company Limited.(1)	1,771,023,828	20.94
Singapore Airlines Limited(2)	815,221,791	20.09
Nanshan Capital Holdings Limited(3)	1,689,932,240	19.98
HNA Tourism Group Co., Limited(4)	1,676,736,791	19.82
Corvina Holdings Limited(5)	845,811,931	10.42

(1) Substantial holding notice lodged with ASX on 11 January 2018.
(2) Substantial holding notice lodged with ASX on 27 June 2016.
(3) Substantial holding notice lodged with ASX on 13 October 2016.
(4) Substantial holding notice lodged with ASX on 8 January 2018.
(5) Substantial holding notice lodged with ASX on 8 August 2016.

As required by ASX Listing Rule 4.10.4, the substantial holding information set out above is based on the information provided by the relevant substantial holder in the most recent substantial holding notice given by them to the Company and lodged with ASX (on the dates specified above). There are certain differences between this information and the details of the 20 largest shareholders provided on page 108 because the latter details reflect the position as shown on the Company's register of shareholders as at 6 September 2019. In accordance with the *Corporations Act 2001* (Cth), substantial holders are only required to lodge an updated substantial holding notice where there is a movement of at least 1% in their voting power.

Refer to note E4 to the consolidated financial statements for voting rights attached to ordinary shares and note G3 to the consolidated financial statements for voting rights attached to options and rights.

Distribution of equity security holders

Category	Number of holders of ordinary shares
1 – 1,000	919
1,001 – 5,000	8,809
5,001 – 10,000	3,061
10,001 – 100,000	3,997
100,001 and over	578
	17,364

3,226 shareholders hold less than a marketable parcel of ordinary shares as at 6 September 2019.

On-market share buy-back

There is no current on-market buy-back.

No securities were purchased on-market during the financial year for the purpose of employee share schemes.

Shareholder information (continued)

20 largest shareholders as at 6 September 2019

Name	Number of ordinary shares held	Capital held %
EAG Investment Holding Company Limited	1,771,023,928	20.97
Singapore Airlines Ltd	1,691,623,863	20.03
Nanshan Capital Holdings Ltd	1,689,932,240	20.01
HNA Innovation Ventures (Hong Kong) Co Limited	1,676,736,791	19.86
Corvina Holdings Limited	845,811,931	10.02
Merrill Lynch (Australia) Nominees Pty Limited	140,099,423	1.66
Citicorp Nominees Pty Limited	80,595,360	0.95
HSBC Custody Nominees (Australia) Limited	55,207,819	0.65
Chesters Nominees Pty Ltd	25,000,000	0.30
J P Morgan Nominees Australia Pty Limited	21,038,139	0.25
Kilby Pty Ltd <Donald & Ann Lazzaro FAM A/C>	13,653,838	0.16
BNP Paribas NOMS Pty Ltd <DRP>	10,755,803	0.13
Massimo John Borghetti	9,367,924	0.11
Archerfield Airport Corporation Pty Ltd	7,750,000	0.09
Henleaze Investments Pty Ltd	7,000,000	0.08
JACPAR Qld Pty Ltd	6,000,000	0.07
Mr Don Lazzaro + Mrs Ann Lazzaro <Super Fund A/C>	5,300,000	0.06
Just Super Co Pty Ltd <Super Fund A/C>	4,930,580	0.06
Mr Simon Gautier Hannes + Mrs Mignon Booth <SGH Super Fund A/C>	4,750,000	0.06
Mr Albert Morris	4,484,371	0.05

Corporate directory

Company secretary

Sharyn Page

Principal administrative and registered office

Virgin Australia Holdings Limited
56 Edmondstone Road
Bowen Hills QLD 4006
Australia
Telephone: (07) 3295 3000 (within Australia) or +61 7 3295 3000 (outside Australia)

Share registry

Computershare Investor Services Pty Limited

POSTAL ADDRESS

GPO Box 2975
Melbourne VIC 3001
Australia

STREET ADDRESS

Yarra Falls
452 Johnston Street
Abbotsford VIC 3067
Australia
Telephone: 1300 850 505 (within Australia) or +61 3 9415 4000 (outside Australia)

Securities exchange

The Company is listed on the Australian Securities Exchange (ASX Code "VAH").

Other information

Virgin Australia Holdings Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

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group