Virgin Australia Airlines
FY12 full year results

28 August 2012

Introduction

- Turnaround in financial performance notwithstanding a high fuel price and tougher economic environment in H2 FY12
- Major elements of the Game Change Program now in place
- Achieved over 20% of domestic revenue from Corporate and Government market – target reached one year ahead of schedule
- Strong membership and usage growth of Velocity Frequent Flyer – ready for next phase
- Service excellence recognised globally through series of international awards
- Strategy to drive next phase of growth

Financial highlights

- Statutory NPAT[1] of $22.8m, a $90.6m turnaround on last financial year
- Improvement in underlying PBT[2] by $149.1m to $82.5m
- Strong revenue growth +19.8% to $3,919.5m
- Good yield growth, +12.2% on FY11 for domestic, +12.0% for Group
- Underlying CASK[3] increased by 4.5% notwithstanding the significant investment in new product and services
- Strong operating cash flows +30.2% on FY11, with closing cash balance of $802.6m
- Improved free cash position, +28.1% increase in unrestricted cash to $480.1m

Note: [1] Net Profit / (Loss) After Tax; [2] Underlying Profit / (Loss) Before Tax (PBT) is a non-statutory measure used by Management and VAH's Board; [3] Underlying Cost per Available Seat Kilometre (CASK) is defined on page 26

Group Profit and Loss summary

12 months ended 30 June	2012 $m	2011 $m	Variance %
Underlying Profit / (Loss) before Tax[1]	**82.5**	**(66.6)**	**223.9%**
Transformation Program - Accelerated depreciation	(14.4)	-	-
Transformation Program - Asset write downs	(6.3)	-	-
International restructure	(6.3)	-	-
Other items[2]	(27.0)	-	-
Hedging ineffectiveness[3]	(28.3)	(28.2)	-
Statutory Profit / (Loss) before Tax	**27.2**	**(94.8)**	**128.7%**
Income tax (expense) / benefit	(4.4)	27.0	-
Statutory Profit / (Loss) after Tax	**22.8**	**(67.8)**	**133.6%**

Note: [1] Underlying Profit / (Loss) Before Tax (PBT) is a non-statutory measure used by Management and VAH's Board; [2] Other items is a non-statutory measure and are included in other expenses from ordinary activities in the consolidated income statement; [3] Hedging ineffectiveness treatment is defined on page 26

Underlying Group results

12 months ended 30 June	2012 $m	2011 $m	Variance %
Revenue	**3,919.5**	**3,271.0**	**19.8%**
Segment EBIT[1]	151.0	(14.0)	-
Net interest	(39.7)	(48.2)	17.6%
Net loss on disposal / write down of property, plant and equipment[2]	(18.7)	(4.4)	-
Hedging ineffectiveness[3]	(10.1)	-	-
Underlying Profit / (Loss) before Tax[4]	**82.5**	**(66.6)**	**223.9%**
Group ASKs (m)	39,759.5	37,092.3	7.2%
Group Yield	11.09	9.90	12.0%

Note: [1] Segment EBIT is a non-statutory measure per note 5 of the Virgin Australia Holdings preliminary final report for the year ended 30 June 2012; [2] Net loss on disposal / write down of property, plant and equipment excludes asset write downs in relation to the transformation program of $6.3m and international restructure expense of $6.3m as detailed on page 3; [3] Hedging ineffectiveness treatment is defined on page 26; [4] Underlying Profit / (Loss) Before Tax (PBT) is a non-statutory measure used by Management and VAH's Board

Domestic – EBIT summary

12 months ended 30 June	2012 $m	2011 $m	Variance %
Revenue	2,947.9	2,402.0	22.7%
Domestic EBIT[1]	115.6	(36.4)	-
ASKs (m)	24,343.7	22,215.8	9.6%
Yield	13.07	11.65	12.2%

Note: [1] Segment EBIT is a non-statutory measure per note 5 of the Virgin Australia Holdings preliminary final report for the year ended 30 June 2012

International – EBIT summary

12 months ended 30 June	2012 $m	2011 $m	Variance %
Revenue	1,053.4	953.8	10.4%
International EBIT[1]	35.4	22.4	58.0%
ASKs (m)	15,415.8	14,876.5	3.6%
Yield	7.87	7.28	8.1%

Note: [1] Segment EBIT is a non-statutory measure per note 5 of the Virgin Australia Holdings preliminary final report for the year ended 30 June 2012

Cashflow summary

12 months ended 30 June	2012 $m	2011 $m	Variance %
Operating	277.9	213.5	30.2%
Investing	(198.3)	(285.4)	30.5%
Financing	(0.8)	3.0	(126.7%)
Net cash inflow / (outflow)	**78.8**	**(68.9)**	**214.3%**
Balance at start of period	**731.3**	**814.7**	**(10.2%)**
Exchange rate changes	(7.5)	(14.5)	48.3%
Balance at end of period	**802.6**	**731.3**	**9.7%**

Balance sheet summary

As at	30 June 2012 $m	30 June 2011 $m
Cash and cash equivalents	802.6	731.3
Property, plant and equipment	2,769.0	2,742.9
Other assets	423.6	367.1
Total Assets	**3,995.2**	**3,841.3**
Interest bearing liabilities	1,674.1	1,639.9
Unearned revenue	691.9	699.9
Other liabilities	699.5	575.2
Total Liabilities	**3,065.5**	**2,915.0**
Net assets	**929.7**	**926.3**
Unrestricted Cash	**480.1**	**374.7**

Hedging policy

- AUD designated hedging policy since 2011 provides a large degree of short term certainty and longer term optionality
- Fuel cost increases of 15% on ASK growth of 7.2%[1]

Hedging summary	Brent
Remainder of FY13[2]	
Operating requirements hedged	71%
Participation in favourable price movements	72%
Worst case hedged rate (inclusive of option premium)	AUD 109/bbl

Note: [1] Average AUD Jet Fuel spot price increases between FY11 and FY12 11.6%; [2] Figures as at 20 August 2012
Source: Bloomberg

Network and capacity strategy – maintain flexibility based on demand

Domestic

- No capacity share target – focused on yield and margin improvements
- Short sectors: focused on high frequency, narrow body services
- Long sectors (Trans Continental): operate wide body aircraft, replacing narrow body
- Regional network: continued introduction of turboprop aircraft – superior economics
- H1 FY13 capacity growth anticipated to be between 8-9%

International

- Continue alliance network strategy
- Have flexibility to grow international capacity within existing fleet plan

Current and future fleet plan

- Capacity growth has been on strategy; aligning right aircraft type for each segment
  - Fleet simplification: exit of E170 and progressive retirement of B737-700
  - Introduction of wide body aircraft on Trans Continental
  - Introduction of ATR-72 turboprop on new and existing E-jet regional network
- Long term fleet strategy
  - Narrow body: Boeing 737 MAX 8 choice
  - Wide body: evaluating wide body options beyond 2017

Maintain flexibility within fleet optionality to meet future market conditions

Fleet growth in FY13 unchanged – average age 4.2 years at 30 June 2013

	Jun 2012	Deliveries	Retirement / lease return	Jun 2013	Jun 2015
Narrow body					
B737-700	7	0	4	3	2
B737-800	61	10	3	68	76
E170	0	0	0	0	0
E190	18	0	0	18	18
Wide body					
A330-200	5	1	0	6	8
B777-300ER	5	0	0	5	5
Turboprop					
ATR-72	6	6	0	12	16

- Leased B737-700 fleet returned by October 2013
- Entered into long term narrow body fleet order for 23 Boeing 737 MAX 8 aircraft, plus 4 options (from 2019)

Note: Figures up to end of June 2012 – firm deliveries only and excludes additional options and purchase rights

Leading major brand for OTP[1]

12 months ended 30 June	2012	2011	Variance (PPT)
Virgin Australia	82.8%	79.9%	+2.9
Virgin Australia – regional operations[2]	80.0%	n/a	n/a
Total Virgin Australia	82.7%	79.9%	+2.8
Qantas	84.4%	83.8%	+0.6
QantasLink	77.7%	78.5%	- 0.8
Total Qantas[3]	81.2%	81.4%	- 0.2

Note: [1] On time departures; [2] Includes ATR-72 turboprops and F100 operations; [3] Excludes Jetstar
Source: Bureau of Infrastructure, Transport and Regional Economics (BITRE)

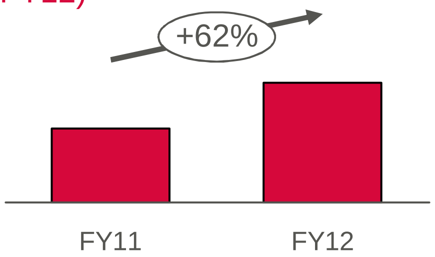
Continuing investment in product and service

- Completing fleet renewal program – domestic and international
  - Launched B737 business class in FY12 and introduction of E190 business cabin by 3Q FY13
  - Introduced new A330 aircraft, with improved cabin interior
  - Commenced cabin refresh of Boeing 777 fleet
- Upgrading in-flight entertainment – new Wi-fi technology and Samsung Galaxy Tabs
- Continuing Lounge program with new and upgraded facilities – growth ahead of expectations
- New Trans Continental Perth offering – complimentary food and beverage
- Expanding and enhancing airport terminal experience – Sydney and Melbourne refurbishment, and new Canberra terminal
- Launching mobile functionality – introduced mobile boarding passes and ‘flight specials’ app

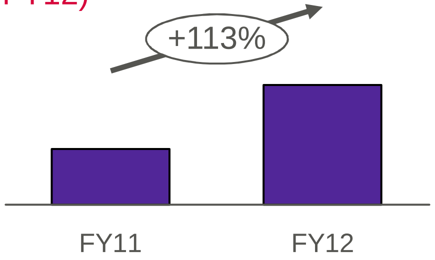
Game Change Program has delivered

- Accessed new market segments
  - Corporate and government revenue increased by 62%
  - 68 new and 68 renewed corporate accounts (60% at majority share[1]); new contracted revenue over $110m
  - Interline and codeshare revenue[2] increased by 158%
  - Regional Australia network revenue increased by 75%
- Changed revenue mix
  - Corporate and Government now over 20% of domestic revenue mix achieved
  - Increase in high yield fares[3] revenue by 113%

Corporate and government revenue growth (FY11-FY12)



High yield fares[3] revenue growth (FY11-FY12)



Game Change Program revenue mix target achieved

Note: [1] More than 50% share of total spend; [2] Interline and codeshare revenue onto Virgin Australia domestic and international short-haul network; [3] High yield fares include business class, premium economy and flexi fares

International turnaround strategy has been successful – EBIT profitable

- Virtual international network now in place – further enhancements to follow
- Over 400 international destinations in quality alliance network
- Provides growing source of inbound international passengers – more than doubled passenger feed connecting onto domestic services in FY12
- Capturing increasing share of Australia international outbound / inbound passengers – revenue feed onto partner airlines has almost tripled

Achieved with minimal capital expenditure and no additional aircraft

Velocity Frequent Flyer will be a key growth driver

- Named Best Frequent Flyer Program for Australian business travellers[1]
- Value growth driven through:
  - Superior earn and burn capability increasing airline usage
  - Increasing contribution to group earnings
- Annual membership growth +24% in FY12
- Reciprocal global flight earn and burn opportunities now live with alliance partners
- Growing new non-flight partners – now over 350 partners
- New Chief Executive Officer Velocity, Neil Thompson has commenced

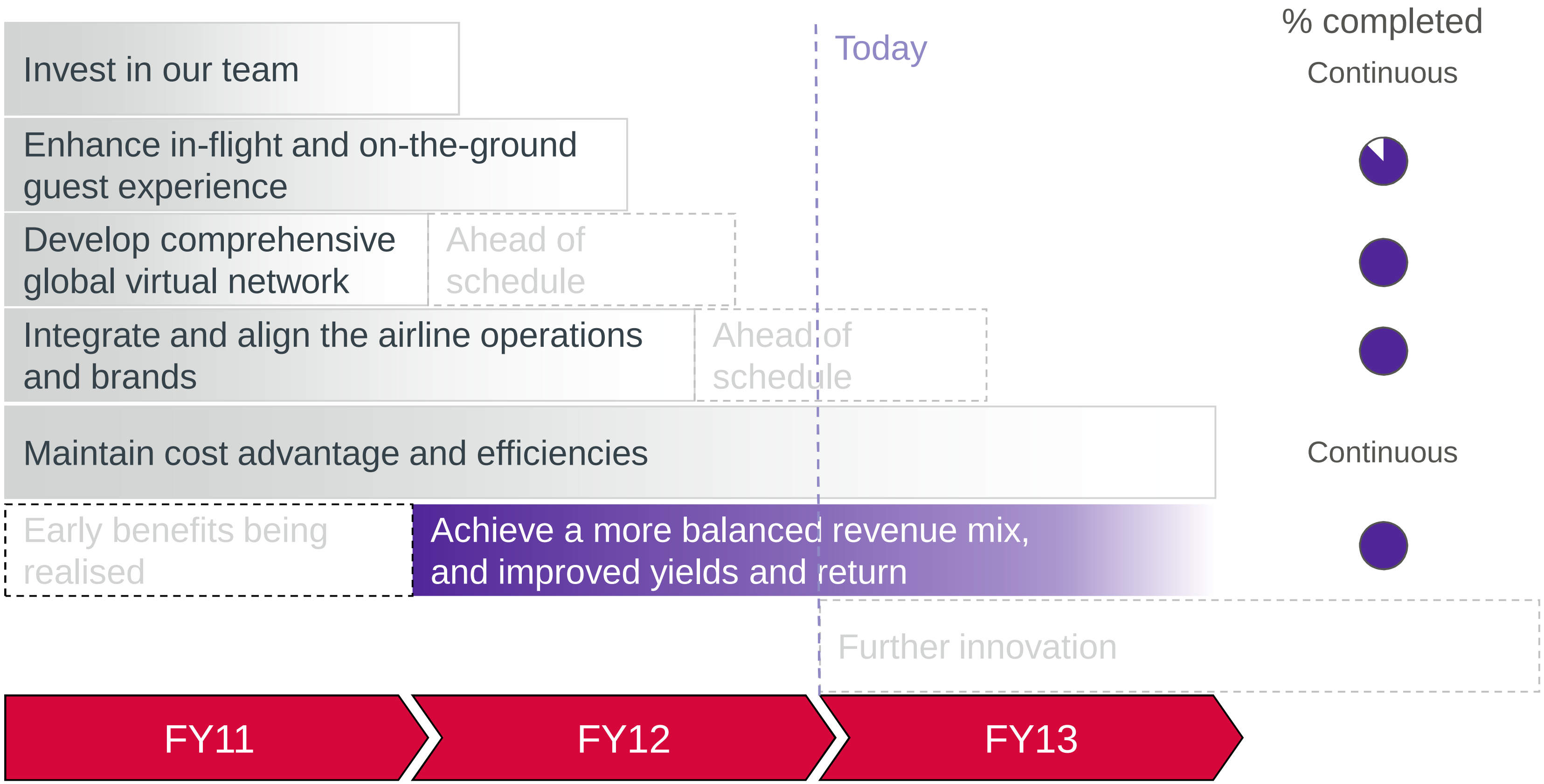
Velocity Frequent Flyer key performance metrics (FY12)

Performance metric	FY12 (growth %)
Daily member acquisition rate	+44%
Billings ($)	+71%
Points burned	+39%

Velocity now a competitive strength

Note: [1] Velocity was named Best Frequent Flyer Program for Australia business travellers in the Australian Business Traveller Awards 2011 australia

Game Change Program scorecard



Strong delivery on a consistent strategy

Virgin australia

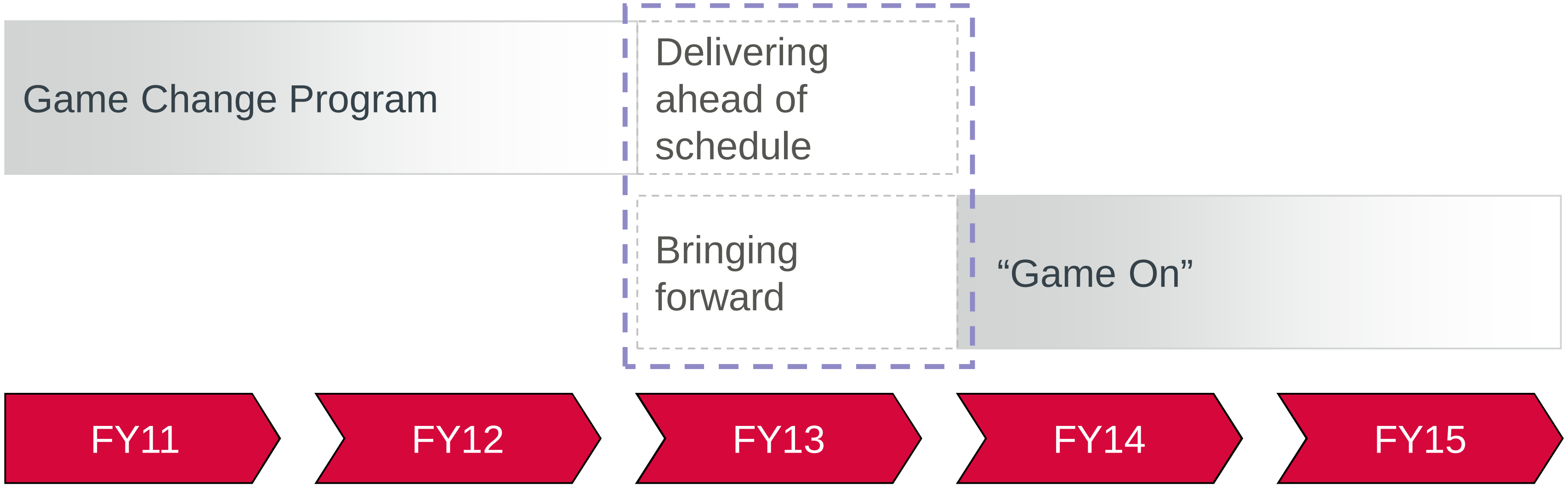
Game Change Program – the next phase, Game On

Phase I

"Revenue diversification"

Phase II

"Driving earnings growth"



“Game On” key initiatives

Initiative	Target
Implement business efficiency project	Deliver efficiencies in productivity gains of $400m over 3 years (run rate of over $200m per annum by end of FY15)
Build a transformational loyalty business	Achieve over 5 million members by end of FY15
Increase access to global markets	Increase codeshare and interline revenue by around $150m per annum run rate by end of FY15
Further enhance guest experience through innovation inflight and on-the-ground	Introduce further product and service innovations to create an enhanced customer journey
Continue to develop our people and service excellence – our key differentiator	Consolidate frontline training; enhance training and development for our staff

FY13 → **FY14** → **FY15**

Business project to improve efficiency and maintain cost advantage

- Launched a “fitness” program to build sustainable outcomes as the business continues to grow over the next 3 years
- Focused on delivering a step change to efficiency benchmarks
  - Examples include fuel efficiency and aircraft utilisation
- Key principles are built on existing foundations and platforms
  - Will strategically ensure a long-term structural cost advantage as an efficient airline
  - Leverage heritage and culture of innovation and change
  - Continue to challenge the status quo with bold thinking
- Targeting delivery of net cumulative productivity gains of $400 million over 3 years, and run rate of over $200 million per annum by end of FY15

Key to our achievements is our people

Skytrax 2012 top 20 airlines

Ranking	Company	2011 ranking
1	Qatar Airways	1
2	Asiana Airlines	3
3	Singapore Airlines	2
4	Cathay Pacific Airways	4
5	ANA All Nippon Airways	11
6	Etihad Airways	6
7	Turkish Airlines	9
8	Emirates	10
9	Thai Airways International	5
10	Malaysia Airlines	12
11	Garuda Indonesia	19
12	Virgin Australia	32
13	EVA Air	16
14	Lufthansa	15
15	Qantas Airways	8
16	Korean Air	24
17	Air New Zealand	7
18	Swiss International Air Lines	13
19	Air Canada	21
20	Hainan Airlines	23

- Best airline in Australia / Pacific region
- Best airline staff service Australia / Pacific

Strong engagement is driving service excellence

Source: Skytrax

Consolidation and growth plan – 5 year journey

FY11	FY12	FY13	FY14	FY15
Plan & implement	Reposition	Lead & leverage	Growth	Sustainability
• Formulate Game Change strategic plan and commence implementation	• Conclude roll out of Game Change strategic plan and begin benefits realisation from H2 FY12	• Build upon strategic re-positioning on a strengthened domestic market position and commence Game On phase	• Drive future earnings growth through Game On phase	• Positioned to continue sustainable and resilient earnings growth

Implementation ahead of schedule – driving early benefits

Outlook

"Virgin Australia has delivered an improved result for the 2012 Financial Year, notwithstanding higher fuel prices.

Given the uncertain economic environment we are unable to provide clear 2013 Financial Year guidance at this stage.

With the Game Change Program largely embedded, we are confident we have established a sound platform from which we can respond to changing market conditions."

Definitions and ASIC guidance

Definitions:

Underlying Cost per Available Seat Kilometre (CASK): Total revenue less underlying Profit Before Tax and the following: fuel, hedging ineffectiveness of $10.1 million (FY11: nil) and net loss on disposal / write down of property, plant and equipment of $18.7 million (FY11: $4.4 million). To ensure consistency of comparison to FY11, FY12 total revenue has been reduced by $43.0 million relating to non-ticket or nil margin activities to reflect changes in business model or accounting treatment from the prior year. This revenue is not included in the definition of yield.

Hedging ineffectiveness: From FY12 VAH includes the impact of realised ineffective cashflow hedges and non-designated derivatives in underlying Profit Before Tax ($10.2 million). The FY11 hedging ineffectiveness includes both realised and unrealised ineffective cashflow hedges and non-designated derivatives of $6.4 million and $21.8 million respectively.

ASIC guidance:

In December 2011 ASIC issued Regulatory Guide 230. In order to comply with this Guide, Virgin Australia is required to make a clear statement about whether information disclosed in documents other than the financial report has been audited or reviewed in accordance with Australian Auditing Standards. The following non-IFRS information has not been audited or reviewed by KPMG: underlying Profit Before Tax, domestic EBIT, international EBIT, segment EBIT and other items. This presentation has not been audited or reviewed by KPMG; however, IFRS data has been derived from the unaudited financial statements that are in the process of being audited by KPMG.