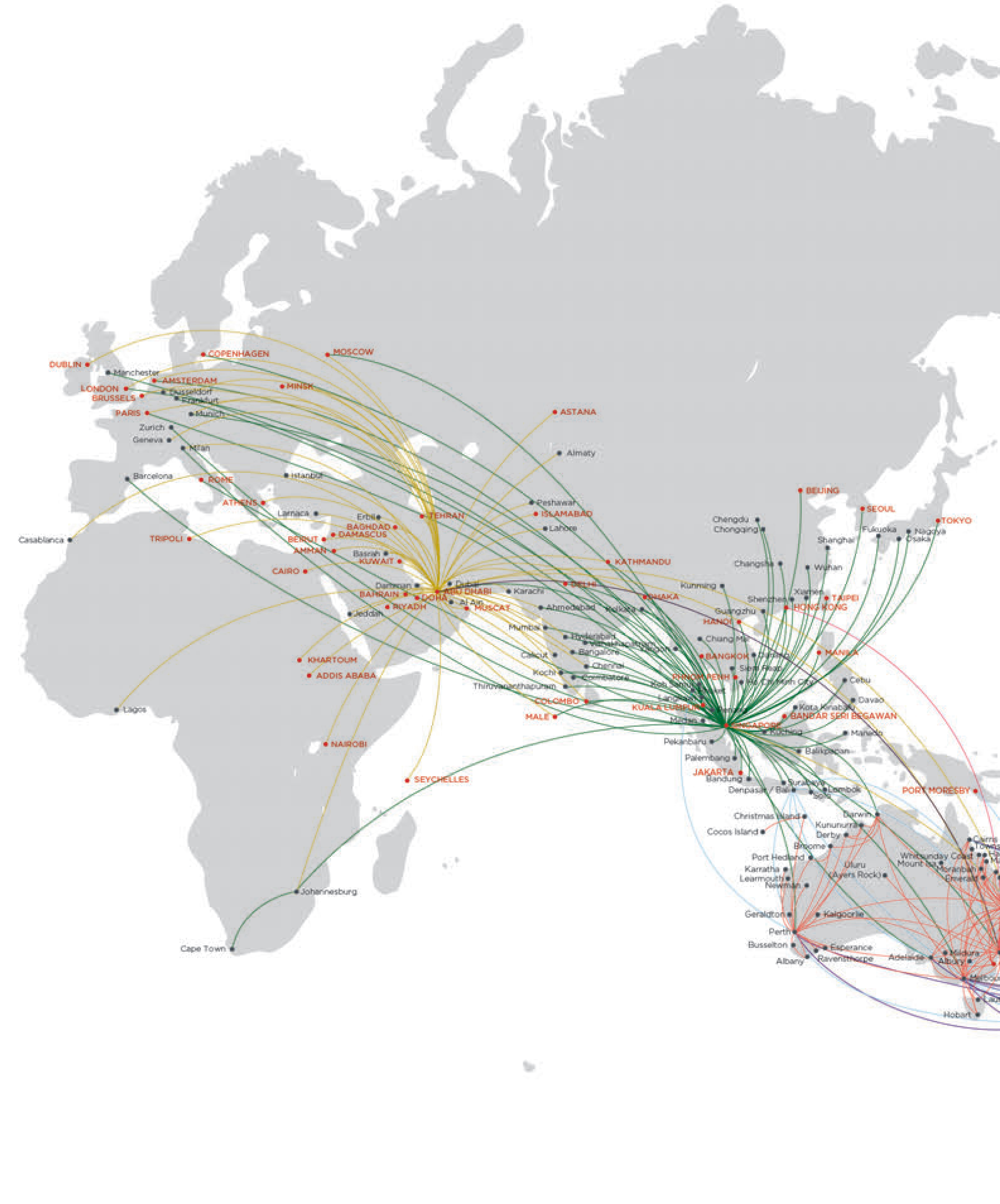
australia

annual report 2013



virgin australia group of airlines, virgin samoa, etihad airways, singapore airlines,
delta air lines, air new zealand, virgin america, virgin atlantic and hawaiian airlines

Virgin Australia domestic | Virgin Australia international short-haul | Virgin Australia international long-haul | Virgin Samoa | Etihad Airways alliance | Singapo


Seattle
Portland
Sacramento
San Francisco
San Jose
Oakland
Los Angeles
San Diego
Salt Lake City
Denver
Las Vegas
Phoenix
Minneapolis
Chicago
Indianapolis
Kansas City
Memphis
Dallas
Houston
Puerto Vallarta
Toronto
Detroit
Cleveland
Columbus
Cincinnati
Lexington
Nashville
Atlanta
New Orleans
Orlando
Tampa
Fort Lauderdale
Miami
Cancun
Montreal
Boston
Albany
New York
Philadelphia
Pittsburgh
WASHINGTON D.C.
Raleigh/ Durham
Lihue
Kahului
Honolulu
Kona
SOLOMON ISLANDS
PORT VILA
APIA / SAMOA
Nadi / Fiji
NUKU' ALOFA
RAROTONGA
Rockhampton
Gladstone
Bundaberg
Hervey Bay
Sunshine Coast
Brisbane
Newcastle
Sydney
CANBERRA
Auckland
WELLINGTON
Christchurch
Queenstown
Dunedin
Delta Air Lines alliance
Air New Zealand alliance
Virgin America
Virgin Atlantic
Hawaiian Airlines

Contents

Key milestones

July 2012

- Announced order of 23 Boeing 737 MAX aircraft
- Awarded Best Airline in Australia Pacific Region at the Skytrax Awards
- Codeshare on Virgin America launched
- Mobile boarding and flight specials app launched

August 2012

- Coast2Coast services launched on Transcontinental Perth (TCP) routes
- Partnership with Australian Chamber Orchestra launched

September 2012

- S'Wonderful marketing campaign launched
- Partnership with Queensland Ballet launched

October 2012

- Virgin Australia announces conditional agreements to acquire Skywest and 60% of Tiger Australia (Tigerair)
- Virgin Australia announces a $105 million share placement to Singapore Airlines to fund future growth and subsequent placement of 10% of issued share capital to Singapore Airlines

November 2012

- Pilot Cadet program launched
- Velocity $0 annual fee American Express Card launched
- Singapore Airlines and Virgin Australia announce codeshare expansion

December 2012

- $12m partnership with Tourism Australia announced
- Proposed acquisition of Skywest receives Securities Industry Council approval

January 2013

- *SabreSonic* system reservation launched
- Australia Competition and Consumer Commission (ACCC) announces decision not to oppose Skywest acquisition

February 2013

- Tiger Airways Holdings shareholders approve Tiger Australia transaction
- Airbus A330 Brisbane to Perth services and new regional destinations announced

March 2013

- Skywest shareholders approve proposed acquisition
- Foreign Investment Review Board (FIRB) announces that is has no objection to the Skywest acquisition
- Canberra airport terminal and lounge launched

April 2013

- Skywest acquisition completed
- ACCC announces decision not to oppose Tiger Australia transaction
- Virgin Australia makes additional share placement to Singapore Airlines following the exercise of anti-dilution rights

May 2013

- Virgin Australia regional operations launched
- FIRB announces it has no objection to the Tiger Australia transaction
- Etihad Airways confirms increased shareholding in Virgin Australia to 10%

June 2013

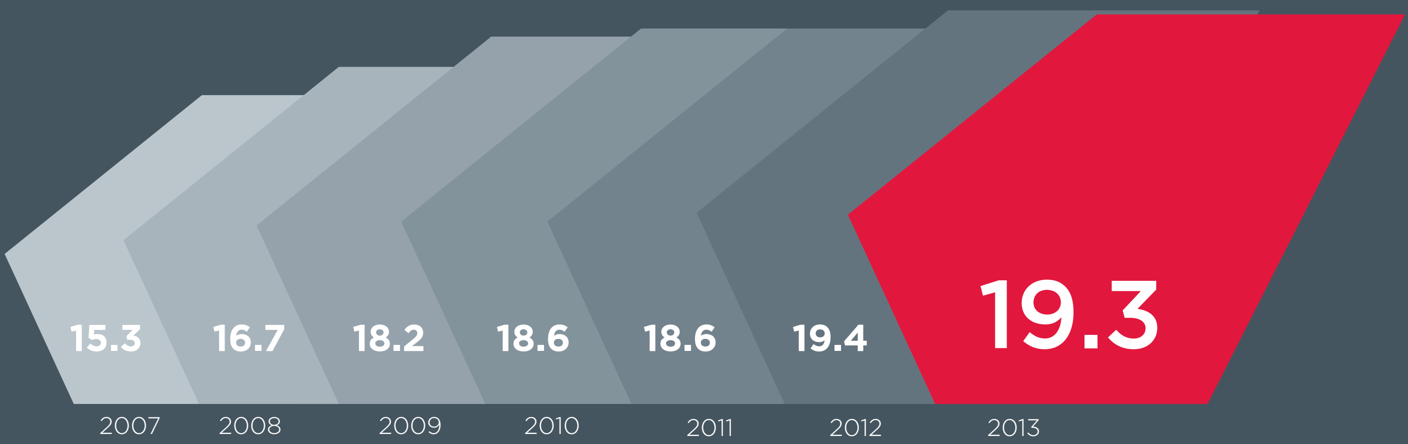
- Air New Zealand confirms intention to increase Virgin Australia shareholding to 22.9%
- Velocity Global Wallet launched

July 2013

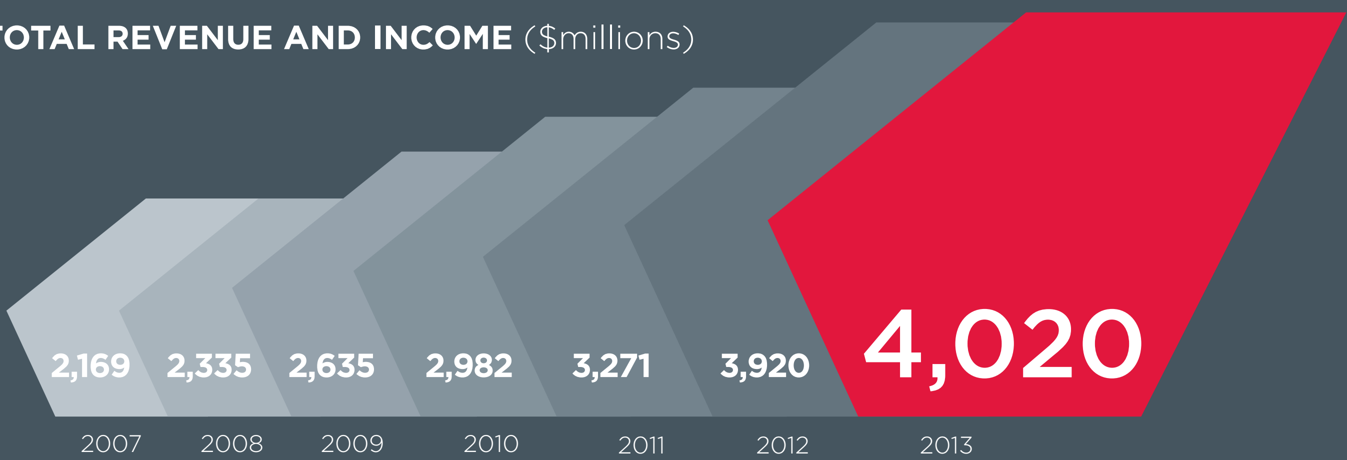
- Virgin Australia completes 60% acquisition of Tiger Australia
- ACCC issues draft decision for conditional authorisation of Air New Zealand Trans-Tasman alliance

Preview

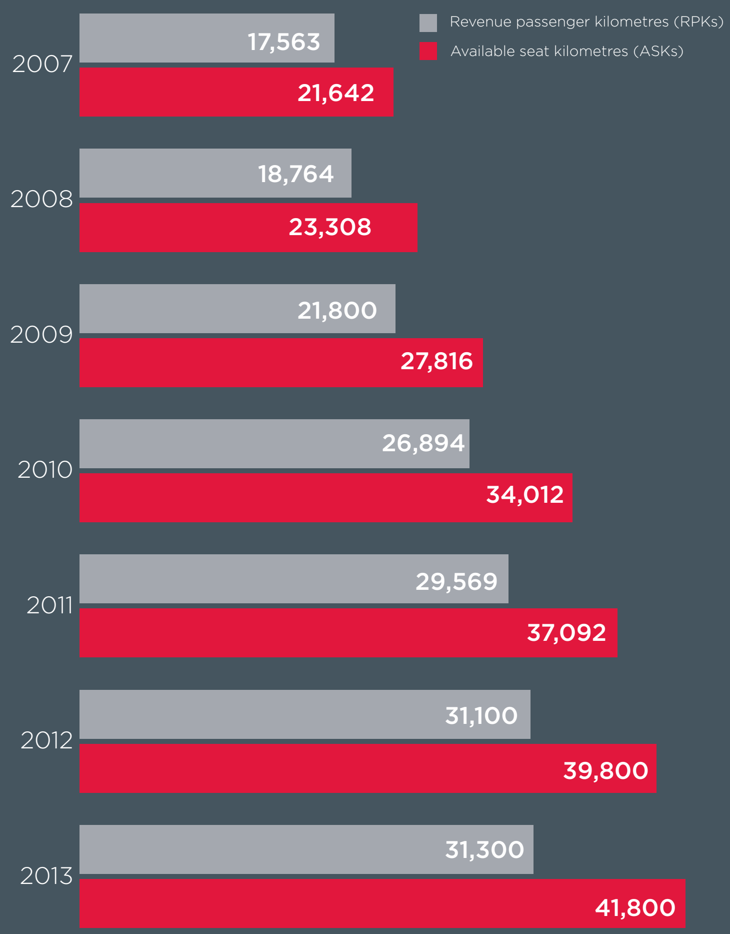
PASSENGERS CARRIED (millions)



TOTAL REVENUE AND INCOME ($millions)



RPKs/ASKs (millions)



FINANCIAL HIGHLIGHTS	2013 $m	2012 $m
Total revenue and income	**4,020.4**	3,919.5
Segment EBIT[1]	**(36.7)**	116.7
Statutory net profit/(loss) after tax	**(98.1)**	22.8

OPERATING STATISTICS (Group)[2]	2013	2012
Group yield[3]	**11.08c**	11.09c
Available seat kilometres	**41.8bn**	39.8bn
Passengers carried	**19.3m**	19.4m
Revenue load factor[4]	**75.6%**	78.1%

1 Segment EBIT is a non-statutory measure as per note 6 of the consolidated financial statements. This non-IFRS information has not been audited or reviewed by KPMG.

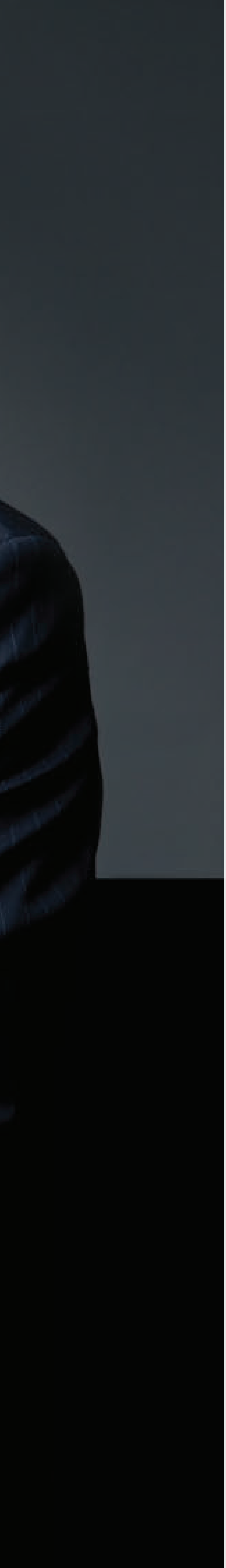
2 This non-IFRS information has not been audited or reviewed by KPMG.

3 Group yield excludes Skywest Airlines Pte Ltd, formally known as Skywest Airlines Limited.

4 Revenue load factor means revenue passenger kilometres (RPK) as a percentage of available seat kilometres (ASK). Revenue load factor metrics include Virgin Australia and International Alliance Partner ASK and RPK data on our revenue share routes with international alliance partners Air New Zealand and Delta Air Lines.

… the Company commenced the “Game On” phase of the strategy during the 2013 financial year, which revolves around driving new growth opportunities for the business, while retaining a cost-efficient, flexible business model.

– Neil Chatfield, Chairman



The chairman's report

The 2013 financial year encompasses the end of the first phase of Virgin Australia's Game Change Program and the beginning of the second phase of the strategy.

The first phase involved growing our presence in the Australian corporate and government market, strengthening our presence in the leisure market, establishing a *virtual* global network through strategic airline alliances and enhancing Virgin Australia's brand in Australia and overseas.

Having achieved these goals ahead of schedule, the Company commenced the "Game On" phase of the strategy during the 2013 financial year, which revolves around driving new growth opportunities for the business, while retaining a cost-efficient, flexible business model.

I am pleased to report that Virgin Australia has made significant progress in this regard, despite the difficult economic and operating environment.

During the year we accessed new growth markets, with the launch of a new regional operation in May 2013 following the acquisition of Skywest Airlines and our re-entry into the budget market segment with the acquisition of 60 per cent of Tigerair Australia completed in July 2013. We have also increased our ability to drive future revenue growth, with the successful transition to the globally recognised reservation system, *SabreSonic*.

Notwithstanding the significant progress in building our business with compelling customer propositions in all market segments, it is disappointing that the Company posted a loss of $98.1 million after tax for the 2013 financial year.

We faced challenging operating and economic conditions including some of the fiercest competition ever seen in this country. These factors, along with the significant one-off costs necessary for the transformation of the business, have impacted our financial performance for the year. Importantly however, the major transformation program is now complete and the Company is well-placed to generate earnings benefits in the 2014 financial year.

Positioning the airline to be a sustainable business for the long-term remains the key priority for the Board.

During the year we were delighted to welcome one of the world's premier airlines Singapore Airlines, as a major shareholder. Together with Air New Zealand and Etihad Airways we now have a strong and highly supportive group of industry-based shareholders who have each recognised the success of Virgin Australia in repositioning the airline and see the long-term value in our strategic direction.

The strategic alliances we have with these airlines, and with our strong partner Delta Air Lines, provide Virgin Australia with an extensive and highly competitive global network.

The Company continues to deliver an integrated approach to fuel efficiency, waste reduction, sustainable aviation biofuel development and carbon offsetting to reduce our emissions as a business. This year we announced a number of new initiatives including a landmark study with Brisbane Airport Corporation and SkyNRG, a global market leader in creating sustainable jet fuel. This will see us working together to assess the feasability of creating Australia's first bioport, enabling aircraft to be fuelled with sustainable biofuel at Brisbane Airport.

As part of our commitment to supporting youth at risk in Australia, the Company continued to dedicate its resources to our established community partners; the Starlight Children's Foundation, Surf Life Saving Australia, Foodbank and the Australian Indigenous Mentoring Experience (AIME).

We are committed to using our expansive network to help these important organisations. During the year, we provided around 200 flights to the Starlight Children's Foundation, helping them to grant wishes to seriously ill children and their families around Australia.

Encouraging diversity in the workforce is central to our sustainability strategy and in the last year female representation in senior management positions across Virgin Australia increased from 31 per cent to 33 per cent. Our talented team of 9,200 continue to be Virgin Australia's greatest asset. Over the past twelve months, there has been an even greater focus on celebrating their achievements in going above and beyond for our customers and enhancing service standards in Australia.

I would like to express my sincere gratitude to each of them, to our CEO John Borghetti, his management team and to the Board for their tireless efforts during the 2013 financial year. Together, they have significantly improved Virgin Australia's positioning in the Australian aviation market and laid the foundations for future growth.

Finally, to our shareholders, we thank you for your continued support of Virgin Australia. We look forward to sharing the benefits of our strategy with you in the years ahead.

Neil Chatfield
Chairman

The CEO's report

The 2013 financial year was a pivotal year in the Game Change Program Strategy; a strategy designed to position the Virgin Australia Group as the airline of choice in all market segments and ensure delivery of sustainable earnings benefits to the business in the future.

During the year, we concluded the roll-out of the major transformation initiatives and secured new growth opportunities for the Company, as part of the Game On phase of the program.

Some of our key achievements include:

- Strategic investments in Skywest Airlines and Tigerair Australia, providing us with a platform to be the lowest-cost aviation operation in all key market segments;

It is the efforts of our 9,200 dedicated team members that have helped us to deliver such significant progress in a difficult context.

– John Borghetti, CEO

- The critical transition to a global ticketed environment and single airline designator, with the implementation of the *SabreSonic* reservations system, which is beginning to drive growth in interline and codeshare revenue;
- Over $60 million in productivity gains delivered through our targeted business efficiency program;
- The expansion of our loyalty program Velocity Frequent Flyer, with membership up 535,000 to approximately 3.7 million;
- The enhancement of the customer experience across the country, with new and expanded lounges, Business Class across our domestic fleet, upgrades to our airport terminal facilities and the introduction of state-of-the-art in-flight entertainment; and
- Continued growth in corporate and government revenues.

All of this was achieved in a very challenging external environment, including weak economic conditions, high fuel prices and aggressive competition.

It is the efforts of our 9,200 dedicated team members that have helped us to deliver such significant progress in a difficult context.

Financial and Operating Performance

The Group's financial performance for the 2013 financial year was impacted by a number of factors, including the difficult economic and competitive environment, one-off pre-tax restructuring and transformation costs and the carbon tax.

Despite these factors, we maintained our focus on increasing yield, outperforming our main competitor on Group Yield growth.

We delivered a strong performance on cost, demonstrating our commitment to maintaining our cost advantage and our flexibility to withstand challenging operating conditions. Underlying Cost per Available Seat Kilometre (CASK) (excluding fuel) for the 2013 financial year remained approximately equal to that of the 2012 financial year, in the context of significant product and service enhancements. The Group was also impacted by the carbon tax during the 2013 financial year; with a $47.9 million cost which we were unable to recover due to strong competition in the market.

Our On Time Performance (OTP) for the 2013 financial year of 81.1 per cent was roughly in line with our performance last year. This includes the impact of the transition to SabreSonic, which affected OTP during the third quarter of the 2013 financial year.

Safety and Sustainability

Maintaining a safe and sustainable operation is central to creating value for our shareholders.

We continue to invest to ensure we maintain a young and fuel efficient fleet. With the inclusion of Skywest's aircraft, the average age across our entire fleet is just 6.8 years, which remains below industry average. Compared on a like-for-like basis to last year, the average age of Virgin Australia's fleet was just 4.2 years for the 2013 financial year. I am pleased to report that during the 2013 financial year, our cross-divisional fuel efficiency team introduced a range of new initiatives that will result in tens of millions of litres of fuel saved annually in the future.

At Virgin Australia, we maintain a strong safety culture and we are committed to increasing awareness of safety in the business. This year, Virgin Australia became the first airline in Australia to have a Security Management System (SeMS) approved by the Department of Infrastructure and Transport (Office of Transport Security). Furthermore, as a result of our ongoing focus on workplace health and safety, lost-time injuries decreased markedly during the year, down by 14.6 per cent on the previous corresponding period.

Our People

Our people and the service they deliver continue to be our main differentiator in the market.

During the 2013 financial year we implemented an organisational change program designed to develop a more customer-centric culture in all aspects of our business.

Virgin Australia has received a range of accolades over the year for its achievements in customer service, including our recognition at the Roy Morgan Customer Satisfaction Awards as Domestic Airline of the Year and at the World Airline Awards for *Best Airline Staff Service* in the Australia/Pacific region for the third consecutive year. The Roy Morgan Customer Satisfaction results for the 2013 financial year demonstrate that we are the leader in Domestic Airline Business Satisfaction, with 81 per cent of customers very or fairly satisfied.

I would like to express my sincere gratitude to all team members for their tireless dedication to Virgin Australia as we continue to progress our Game Change Program strategy. In a year of major restructuring and transformation, they have demonstrated great passion and tremendous skill and they will continue to be the drivers of our success going forward.

Strategic Priorities

As part of the Game On phase of our Game Change Program Strategy, our focus for the 2014 financial year will be to drive future earnings growth.

This phase is formed around five key strategic pillars:

- Implementing a business efficiency project;
- Building a transformational loyalty business;
- Increasing access to global markets;
- Further enhancing the guest experience through in-flight and on-the-ground innovation; and
- Continuing to develop our people and service excellence.

I am confident that we now have the right structure in place to compete vigorously in all key market segments and achieve sustainable performance in the future.

I would like to express my sincere thanks to all of our team members, customers and investors for their support and I look forward to working hard to enhance our value as a business.

John Borghetti
CEO


Virgin
ZK-PBJ

Our brand

Over the past two years, we have been focused on launching the Virgin Australia brand and rolling it out across all aspects of the airline.

In the 2013 financial year our focus moved to establishing Virgin Australia as a leading, well respected company in Australia and bringing out the human quality of the brand.

Central to this was the launch of our major marketing campaign, *The Romance is Back*, which was designed to demonstrate how Virgin Australia has put the magic back into flying since the relaunch of our brand and identity in May 2011. The campaign featured in a range of formats across television, online, print, outdoor and social media, reinforcing the new look and feel of the airline and emphasising our key differentiator, our customer service.

The implementation of the *Think Customer* organisational change program commenced during the 2013 financial year. The program is committed to building a culture centred on customer service excellence. An early output of this work was the introduction of a *Brand Ambassador Program* this year; to recognise and celebrate individual examples of outstanding customer service from our team members throughout the company.

In December 2012, Virgin Australia signed a three year $12 million memorandum of understanding with Tourism Australia, which has guided the marketing investment for our international network. Tourism Australia and Virgin Australia identified the United Kingdom, the United States, Germany, New Zealand and Asia as priority markets for the 2013 financial year and beyond. This investment will be supplemented by investment from our alliance partners, state tourism bodies and travel industry partners.

In line with Virgin Australia's vision to be the airline of choice for all market segments, we continued to partner with organisations that appeal to a broad cross-section of the community.

During the year, we formed new arts and entertainment partnerships with the *Queensland Ballet* and the *Australian Chamber Orchestra*. Our sports portfolio, which includes the *National Basketball League* and *Australian Football League*, was also strengthened during the year with the addition of the *Women's National Basketball League*.

In the AMR Corporate Reputation Index of *Australia's Most Reputable Companies*, Virgin Australia was ranked seventh, the highest ranking in the aviation sector and among other reputable organisations such as *Toyota Australia*, *Nestle Australia*, *Apple* and *Australia Post*.

Building a strong social media presence has been a key priority. During this period we increased our focus on new channels such as *Instagram* and continued to grow our *Facebook* engagement, doubling our followers.

One of the next evolutions for the Virgin Australia brand lies within regional Australia. With the acquisition of Skywest Airlines, a key focus for the 2014 financial year will be rebranding the regional travel experience to Virgin Australia and repositioning the overall customer experience on the regional network.

What they said

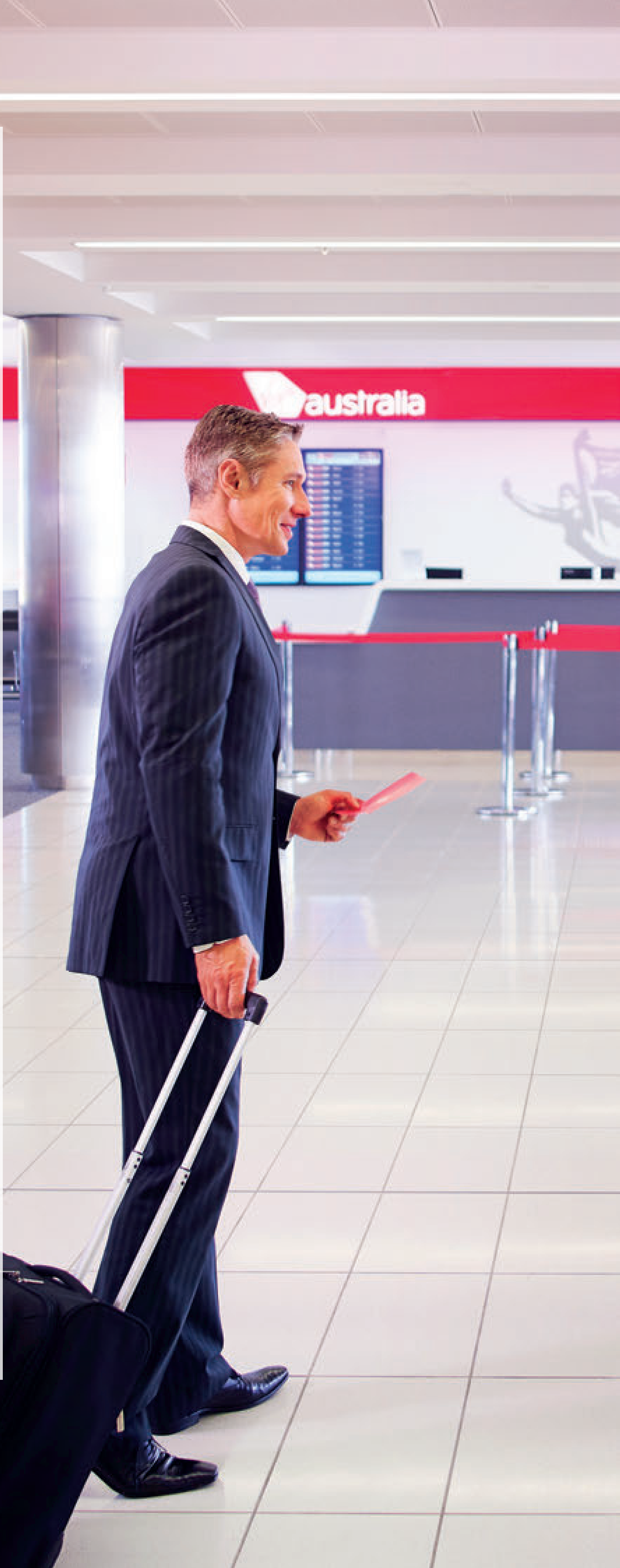
“Your staff showed wonderful compassion and customer service in quickly assisting me to get home tonight. What a lovely thing to receive real customer care.”

“Today the lovely Lydia in the lounge in Melbourne went above and beyond to help me in a request I had for my elderly father. I am amazed at the level of service and kindness that the Virgin team so freely give.”

“Thank you to a wonderful flight attendant who was kind enough to take our daughter for a walk up the plane to give our arms a rest.”

“Thank you to an off duty cabin crew member who went above and beyond the call of duty for our autistic son. He swapped seats and assisted us with a special harness for his chair. His kindness will stay with us for a while to come.”

“A big thank you to Al from the Velocity call centre who gladly assisted me with a flight date change. Her customer service was impeccable.”



Our customers

At Virgin Australia, the customer is at the heart of everything we do, and this year we made further progress towards our goal of becoming Australia's best customer-led organisation.

Rigorous research has been conducted over the past year to ensure we have a thorough understanding of our customers' individual needs and preferences, whether they are flying for business, leisure or to visit friends and family. This important body of work has enabled us to tailor our service delivery even further and will continue to influence our customer strategy in the future.

Delivering a high standard of service is what sets us apart from our competitors and this year we launched a number of initiatives enabling our people to go above and beyond for our customers:

- The introduction of a new world-class *SabreSonic* reservation system to bring a range of new benefits to our customers. These include a greater choice of flights, the ability to issue boarding passes for all sectors at the beginning of the journey, the ability to select a seat up to 331 days ahead of travel and a number of improvements in our self-service capability.
- New tools and skills development opportunities for our frontline team members, for example cabin standards training, enabling them to maintain a high standard of service.
- New disruption management initiatives including the development of a dedicated group of non-operational team members to provide support during times of disruption and a new proactive guest notification system for flight changes and cancellations.

We have continued to invest in the development of the Customer Service capability of our frontline teams, with annual *Service Promise* training delivered to all team members in the 2013 financial year. This was in addition to the roll-out of significant training requirements for the new *SabreSonic* system – for all call centre, airport, lounge and sales team members. We also established and delivered a Business Class development program to around 1,000 cabin crew members responsible for delivering service to our Business Class customers, enabling them to take their service capabilities to the next level.

Demonstrating the success of our continued focus on the customer, Virgin Australia was awarded a number of accolades this year including:

- ***Best Airline Staff Service*** in the Australia-Pacific region at the 2013 Skytrax World Airline Awards for the third consecutive year.
- ***Domestic Airline of the Year*** for 2012 at the Roy Morgan Customer Satisfaction Awards, which are based on the world's largest ongoing single source survey.
- ***Customer Service Team of the Year*** – *Virgin Australia Cabin Crew*, ***Division of a Large Business*** – *Virgin Australia Lounge* and ***CEO of the Year*** at the 2012 Customer Service Institute of Australia Awards.

We were also recognised as a service leader through a unique partnership with Service NSW. The partnership saw us provide insights into our unique customer service culture and training programs to assist Service NSW in establishing best practice customer service for their centres.

Terminal 2, Sydney Domestic Airport

Our product

Since revealing the new look and feel of Virgin Australia early in our Game Change Program, we have overhauled the travel experience across our network, both in the air and on the ground.

During the 2013 financial year, we introduced further innovative product and service enhancements to establish a superior position in customer experience including:

- The roll-out of Business Class to our domestic fleet, with completion of the redesign of our Embraer E190 aircraft cabins, giving travellers in Australia choice in Business Class for the first time in over a decade.
- An expansion program for key lounges in major capital cities to meet growing demand, including the refurbishment of our lounge at Sydney Domestic Airport's Terminal 2, as well as the commencement of the expansion of our lounge offering in Brisbane and Melbourne.
- A new travel experience for the nation's capital. We opened our brand new 300 seat lounge, offering gourmet refreshments, sweeping views across the tarmac and exclusive design elements including Marblo bars, natural stone flooring and Walter Knoll leather chairs. Located in Canberra's state-of-the-art *Airvolution* terminal, the lounge provides customers with a seamless airport experience, including more check-in counters, comfortable leather seating in departure lounges and additional passenger screening areas.

Embraer E190

Our product

- New in-flight entertainment. We began rolling out state-of-the-art technology designed by Lufthansa Systems on selected aircraft across our domestic fleet, which enables our guests to stream up to 300 hours of content directly to their own personal device, including phones, laptops and tablets.
- A series of major enhancements to our facilities at Sydney Domestic Airport's Terminal 2 including five new dedicated gates to accommodate larger aircraft. The Sydney and Melbourne domestic terminals have also been refurbished in line with Virgin Australia's new look and feel, providing more seating and retail options prior to departure.
- A range of in-flight dining enhancements. A fully inclusive hot meal and beverage service is now offered on all flights between the east coast and Perth and on all services to Denpasar and Phuket in all classes.
- The introduction of our award-winning Airbus A330 *Coast to Coast* service on flights between Brisbane and Perth, which features wide, spacious cabins and beds in Business Class.

Innovation will remain core to the Virgin Australia brand, with our people continuing to deliver outstanding service. We have a range of new product and service initiatives planned for the 2014 financial year to ensure we retain our leadership position.

Virgin Australia Lounge, Sydney Domestic Airport

Our product

Virgin Australia Lounge, Canberra Airport

Velocity Frequent Flyer

In August 2012, it was announced that Velocity Frequent Flyer would become a dedicated business group within Virgin Australia to drive future growth opportunities and become a leading loyalty program in Australia.

Under the leadership of the program's first Chief Executive Officer, Neil Thompson, Velocity has set in motion a strategy to reinvigorate the competitive landscape and change the game in the loyalty space.

From strength to strength:

During the 2013 financial year, Velocity experienced significant growth across all strategic pillars.

Increase in retail partners

Responding directly to changing member preferences, a range of new online retail partners were added to the program's eStore during the year including; *iTunes Australia, ASOS, Topshop, The Iconic* and international department stores, *Macy's, Saks Fifth Avenue and Bloomingdales*. With more than 350 partners, Velocity has the most extensive retail offering of any loyalty program in Australia.

More points earned

Increasing our partnerships to reward members in every facet of their lives, continues to drive strong engagement with the program. The partnerships included *bookarestaurant.com* and *the box office*, well-known brands that reward members on a range of events tickets and packages. The American Express Velocity Escape Card was also launched, giving members another opportunity to earn points on their everyday spending. Helping increase our competitive offering, we announced the launch of the program's first multi-currency pre-paid travel card, the Global Wallet, a double sided card combining the Velocity membership card with a Visa pre-paid travel card capability.

Velocity was recognised in three key categories at the prestigious Freddie Awards for Program of the Year, Best Redemption Ability and Best Elite Program for 2013. In financial year 2014, Velocity will continue to deliver compelling ways to redefine loyalty and reward its members.

80% uplift in hotel partners

Some of the world's most luxurious hotels joined the program, including; *Jumeirah Hotels and Resorts, Morgans' Hotel Group, the Virgin Limited Edition portfolio, Voyages* and *Qualia*, expanding the program's offering for Points earn and redemption.

535,000 More members

An annual growth rate of 17 per cent, with approximately 3.7 million members

Australia's best rewards:

Best Reward Seat availability

Velocity was ranked as having the best Reward Seat availability in the Asia-Pacific region and the second best in the world, according to IdeaWorks' *SwitchFly* survey. Velocity continues to hold a leading position as the only program in Australia to offer Reward Seat redemption on 'Any Seat, Any Airline'.

Great value rewards

Velocity's commitment to offering genuine and great value rewards is demonstrated by the fact fuel surcharges are not included when customers claim their Reward Seats. During the year, Velocity also became the first loyalty program in Australia to offer members the ability to earn Status Credits on Reward Seats.

Redefining loyalty:

As a truly member-centric program, Velocity has continued to listen directly to the changing needs of its customers which has resulted in a range of industry innovations including:

A suite of unique family benefits

- *Parental Leave* from the program when expecting a new addition to the family so members can maintain their status.
- *Family Pooling* of points and status credits enabling them to enjoy rewards sooner.
- *Guaranteed Reward Seats* for an annual family trip for Gold and Platinum members.
- *Complimentary Partner memberships* with hotel, car and insurance partners.

Our network and alliances

Domestic network

During the 2013 financial year, Virgin Australia continued to change the competitive landscape in Australian air travel, bringing new benefits to customers and communities throughout the country.

Virgin Australia brought competition to a range of new markets, through the launch of services from Brisbane to Bundaberg, Moranbah and Mt Isa. We also increased frequencies to Adelaide, Emerald, Gladstone, Hobart, Newcastle and Rockhampton, following sustained demand for extra services from our corporate clients.

As part of the ongoing network optimisation, Virgin Australia further expanded its award-winning wide-body Airbus A330 service on Trans-Continental flights. As of September 2012, all weekday services between Melbourne and Perth have been scheduled to be operated by Airbus A330 aircraft. In May 2013, we commenced operating the Airbus A330 aircraft on the Brisbane to Perth route on selected weekday services.

We continued to operate the Airbus A330 aircraft on three out of four weekday services between Sydney and Perth throughout the 2013 financial year.

We constantly monitor the performance of existing routes to ensure the airline's network and schedule reflects current demand. This has resulted in two strategic route withdrawals during the year, with cessation of services from Sydney to Rockhampton and Canberra to Hobart.

By maintaining a young and versatile fleet, Virgin Australia has been able to respond quickly to meet increased demand and offer efficient and reliable timetables for travellers.

Network Snapshot – 2013 Financial Year[1]

3,100
domestic flights per week, up from 2,800 flights per week

160
charter flights per week, up from 10 flights per week

350
international flights per week, up from 320 flights per week

460
destinations across our network including codeshare and interline destinations, up from 420 destinations

1 All numbers are approximate and are compared to the 2012 financial year

Virgin Australia's regional operations

One of the most significant developments for the network during the year was the launch of Virgin Australia's regional operation, following the acquisition of the Western Australia based Skywest Airlines in April 2013.

In addition to its Regular Passenger Transport (RPT) network in regional Australia, Skywest had a strong presence in the high-growth charter market. The acquisition has enabled Virgin Australia to develop a customer-focused charter business model that can effectively cater to the needs of clients in the resources industry.

At the end of the 2013 financial year, Virgin Australia appointed Group Executive Merren McArthur to lead the operation in Perth, established a senior management team that includes both Skywest and Virgin Australia team members and made significant progress with integration of Skywest's operations into the Virgin Australia business.

A rebranding process commenced, aligning the new regional operations' airport facilities, aircraft liveries and on-board product with that of Virgin Australia's network. Our new team members have been wearing the Virgin Australia uniform since the launch of the first newly branded aircraft on 7 May 2013.

As a result of the acquisition, 18 new routes have been added to Virgin Australia's network, including flights between Perth and the West Australian regional destinations of Albany, Busselton, Derby, Esperance, Geraldton, Kalgoorlie, Exmouth and Ravensthorpe. Virgin Australia has announced that it intends to expand its regional operations in Western Australia and to the East Coast, where Virgin Australia currently has no charter presence.

Our network and alliances

International network and alliances
Virgin Australia has further expanded its extensive global network during the 2013 financial year, offering a range of benefits to travellers and providing access to more than 460 destinations across five continents, with the ability to earn Velocity Frequent Flyer Points and Status Credits on these flights. This represents an increase of 40 destinations on the prior corresponding period.

Air New Zealand
Our alliance with Air New Zealand has continued to drive growth in passenger numbers on Trans-Tasman services. During the 2013 financial year, we worked closely with Air New Zealand to optimise schedules for flights across the Tasman and bring reciprocal benefits to customers. This included increasing services between Queenstown and Brisbane, Melbourne and Sydney, adding an additional 30,000 seats to support the peak ski season between July and September. The first new international route under the alliance was introduced during the year, with the launch of a seasonal service between the Sunshine Coast and Auckland.

Delta Air Lines
We continued to work with Delta Air Lines to expand our Trans-Pacific alliance. During the year, we extended our codeshare agreement to include ten additional destinations in the United States, namely Cincinnati, Denver, Memphis, Oakland, Salt Lake City, New York-LaGuardia, Sacramento, San Jose, Tampa and San Diego. Virgin Australia customers now have access to more than 250 destinations across North America and the choice of three flights per day from Australia to the United States.

Etihad Airways
We further enhanced our partnership with Etihad Airways over the year with improvements to our alliance network and customer offering. Together we increased the complimentary baggage allowance for economy class guests from Australia to Abu Dhabi and beyond. The alliance expanded to a further ten markets during the year including Kuwait, Dubai, Al Ain, Riyadh, Jeddah and Dammam in the Middle East; Istanbul, Geneva, Milan and Amsterdam in Europe; Nairobi in Africa and Lahore, Karachi, Peshawar and Islamabad in South Asia. We also launched a joint marketing campaign with Tourism Australia in June 2013 to promote travel between Germany and Australia.

Singapore Airlines

Through our alliance with Singapore Airlines, which includes Silk Air, Virgin Australia introduced an additional 45 codeshare destinations in Asia and Europe during the year. This means that our customers now have the option to fly to Europe via Singapore on a single ticket and can earn points and status credits on these routes. This was complemented by an expansion of codeshare on Singapore Airlines services from Singapore to Adelaide, Sydney, Melbourne and Brisbane. We added a range of new codeshare destinations in the important Asian region, including Japan, Indonesia, Hong Kong, Malaysia, Thailand, Vietnam, Cambodia, Sri Lanka and Bangladesh. We also worked closely with Singapore Airlines to launch competitive *Round the World* and *Circle Pacific* fares.

Virgin Samoa

Virgin Samoa, a joint venture between the Government of Samoa and the Virgin Australia Group, continued to provide regular services between Samoa and both Australia and New Zealand throughout the 2013 financial year.

Codeshare partnerships

In addition to the airline's strategic partners, Virgin Australia's codeshare partnerships with Hawaiian Airlines, Virgin America and Virgin Atlantic provide niche lesuire and business markets around the world. These partnerships performed strongly over the past 12 months. In July 2012, Virgin Australia launched codeshare on Virgin America's network, which adding 8 destinations to it virtual network throughout the United States.

Virgin Australia ceased operating its service between Brisbane and Hamilton (New Zealand) in October 2012 and added a fifth weekly service between Phuket and Perth in September 2012.

Manhattan, New York

Our fleet

FLEET STATISTICS

BOEING 777-300ER

Maximum guests 361
Maximum take-off weight 351,530kg
Maximum range 14,490km
Typical cruising speed 892km/h
Wing span 64.80m
Overall length 73.90m

AIRBUS A330-200

Maximum guests 279
Maximum take-off weight 230,000kg
Maximum range 13,400km
Typical cruising speed 918km/h
Wing span 60.30m
Overall length 58.82m

BOEING 737-800

Maximum guests 176
Maximum take-off weight 79,010kg
Maximum range 5,765km
Typical cruising speed 833.7km/h
Wing span 35.80m
Overall length 39.50m

EMBRAER E190

Maximum guests 98
Maximum take-off weight 47,800kg
Maximum range 3,200km
Typical cruising speed 890km/h
Wing span 28.72m
Overall length 36.25m

Airbus A330-200

AIRBUS A320

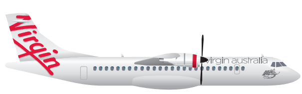
Maximum guests 162
Maximum take-off weight 73,500kg
Maximum range 6,100km
Typical cruising speed 890km/h
Wing span 34.10m
Overall length 37.57m

BOEING 737-700

Maximum guests 128
Maximum take-off weight 70,080kg
Maximum range 6,370km
Typical cruising speed 833km/h
Wing span 35.80m
Overall length 35.53m

FOKKER 100

Maximum guests 100
Maximum take-off weight 45,810kg
Maximum range 3,170km
Typical cruising speed 845km/h
Wing span 28.00m
Overall length 35.53m



ATR 72-500/600

Maximum guests 68
Maximum take-off weight 22,500kg
Maximum range 1,363km
Typical cruising speed 511km/h
Wing span 27.05m
Overall length 27.17m

FOKKER 50

Maximum guests 48
Maximum take-off weight 20,820kg
Maximum range 2,055km
Typical cruising speed 530km/h
Wing span 29.00m
Overall length 25.25m

Safety

Overview

At Virgin Australia, our first priority is to ensure a safe, secure and healthy environment for our team members, contractors, customers and visitors.

We have a comprehensive Safety Management System (SMS) that has been designed to ensure the proactive and systematic identification of risk. The SMS provides an integrated system for the management, control and reduction of operational and occupational safety as well as security risks across the group's operations.

In order to facilitate best practice risk management, we are committed to the continuous improvement of the SMS. This year, Virgin Australia formalised the occurrence risk classification process to proactively classify and prioritise occurrences of risk. This process is now fully embedded within all operations divisions and is an active part of the SMS.

Additionally, Virgin Australia increased safety and quality oversight through the introduction of individual quality assessment teams within each of our operational areas. This layered safety assurance model provides further support to our goal of continuous safety improvement.

In October 2012, The Inaugural Operational Safety Forum was held, with ground safety management a priority for the Forum. The event was well attended by both airline and service partners, with discussion focused on developing a shared approach to safety performance improvement into the future. Several action items were identified which included; proactive sharing of safety data regarding potential risks and hazards and as an increase in safety promotional activity to ensure all educational material was aligned, improving the overall safety cultural awareness.

During the 2014 financial year, our focus will be on a group safety strategy. This will include the on-going integration of Virgin Australia's regional operations and the continued

Virgin Australia Hangar, Brisbane

emphasis on reducing risk through greater engagement with third party suppliers.

Fatigue risk management system

The Fatigue Risk Management System (FRMS) is integrated within the Virgin Australia SMS. The FRMS provides the framework for the management of organisational and individual fatigue risk as it pertains to flight and cabin crew. Virgin Australia remains the only major airline in Australia currently operating under a Civil Aviation Safety Authority (CASA) approved FRMS that covers Flight and Cabin Crew meeting the International Civil Aviation Organisation (ICAO) requirements.

Virgin Australia continues to gather qualitative data to support the FRMS through scientific modelling and research.

Flight data management

The flight data management program provides operational insights through the analysis of flight data in order to identify and mitigate operational risk.

During the 2013 financial year, the group flight data management program was successfully transferred from the flight operations group into safety systems to allow for greater integration with the implementation of a Group flight data program. The group flight data management program has since become an integral part of the SMS and provides regular input into the group's glight training and checking departments in order to continually improve flight safety.

Safety performance

At Virgin Australia, we maintain a strong safety culture and are committed to increasing awareness of safety in the business.

During the 2013 financial year, Virgin Australia became the first airline nationally to have a Security Management System (SeMS) approved by the Department of Infrastructure and Transport (Office of Transport Security). An SeMS provides a structured approach to a company's security policy, helping it to integrate security into its overall business. It is performance based and produces security results that are measurable and auditable.

Improved awareness of workplace health and safety was an ongoing focus during the 2013 financial year. Lost-time injuries decreased significantly during the year, down by 14.6 per cent on the previous corresponding period. This was achieved through focused management intervention and the implementation of timely injury management and return to work programs. In order to maintain this strong performance in a growing business, we will continue to review and enhance workplace health and safety systems and processes.

Electronic operations manuals

Virgin Australia is committed to the transition from paper to electronic operations manuals. Over the 2013 financial year there has been a 42 per cent reduction in hardcopy holders and 14 per cent increase in electronic copy holders which contributed to an 8 per cent decrease in overall printing compared to the previous financial year.

As a result of initiatives within the cabin crew department, all team members now reference electronic copies.

Regulatory / industry engagement

Virgin Australia continues to engage with industry and regulators through various forums including representation on:

- The Standards Consultative Committee (SCC), which is a joint industry CASA forum that makes recommendations to CASA on the development of regulations, standards and other associated advisory material.
- The CASA working groups for the development of fatigue risk management regulations for flight and cabin crew.
- The International Air Transport Association (IATA) Safety Group, of which Virgin Australia is one of 12 member airlines. The IATA safety group monitors aviation safety problems identified by airlines and develops strategies to continuously improve safety.

The Virgin Australia safety systems team continues to represent Virgin Australia at a number of forums covering security, dangerous goods and emergency response in order to support the continued development of standards and policies in these areas.


Virgin
BOEING 737-800
VH-YIB

Our people

At the end of 2013 financial year, Virgin Australia employed 9,200 people in Australia, New Zealand and the United States.

Our people are our greatest asset and their willingness to go above and beyond is what sets our airline apart in the aviation industry.

Virgin Australia continues to be recognised as a leading Australian employer brand. At the 2013 Randstad Awards, Virgin Australia was voted the second most attractive employer in Australia and the most attractive place to work in the aviation industry. We will continue to invest in our people who are our key differentiator, to ensure they are given the right tools to reach their full potential.

Job development

Virgin Australia is proud to be a major Australian employer and is committed to growing jobs in Australia.

As part of the acquisition of Skywest Airlines in April 2013, we welcomed an additional 770 people to the Virgin Australia team. Our workforce now extends from the East to the West coast of Australia.

We continue to look for new ways to identify and foster talent across a range of disciplines including implementing a range of programs to enhance the capability and skills of our people. Our first pilot cadets, who were selected from over 1,200 applicants across the country, represent a bright future in Australian aviation. Over the past 12 months, their skills and knowledge have gone from strength to strength as they train to become fully qualified pilots on our fleet of ATR 72-500/600 turboprop aircraft.

Staff engagement

At Virgin Australia, the engagement of our team members in our overall strategy and vision is a key priority for the business. We are proud of the passion our people have for our airline and the dedication they show to achieving our Game Change Program Strategy.

The People Survey provides all team members with an opportunity to provide feedback to help shape the future of Virgin Australia. The survey canvasses the opinions of employees and the results are used by the executive team to inform divisional specific plans.

The 2013 People Survey demonstrated that our people continue to be proud to work for Virgin Australia and have strong confidence in our strategic direction. Our people are passionate about delivering outstanding customer service and our focus for the 2014 financial year will be on continuing to support them with the coaching, systems and tools to do their roles to the best of their ability.

Gender equality

In the 2013 financial year, women made up 50 per cent of Virgin Australia's total workforce. In addition, female representation in senior management positions across the Company increased from 31 per cent to 33 per cent and half of the CEO's executive level direct report positions are currently held by women. This year we commenced our first cadet pilot training program and over half the cadets were female.

We are committed to maintaining this overall ratio of women in senior positions while increasing female representation across the company.

Indigenous employment

Virgin Australia is committed to providing sustainable, merit-based employment opportunities for Aboriginal and Torres Strait Islander peoples.

Virgin Australia now employs 82 indigenous team members across all areas of our business, an additional 27 team members since last year.

We continue to maintain a culturally diverse workplace, encouraged through active engagement with our community partners including the Australian Indigenous Mentoring Experience.

Recognition

We recognise the importance of celebrating the contributions of our team members and this year we launched a new company-wide initiative called *The Brand Ambassador Program*. It invites nominations from all areas of the business for team members who have gone above and beyond – whether for our guests, another team member or an external stakeholder. It complements a suite of initiatives designed to recognise the work of our team members including the *Virgin Australia CEO Awards* and access to *myID*, an industry-leading staff travel system.

Team member support

Virgin Australia remains committed to supporting our team members to reach their full potential, demonstrated by a number of our programs and initiatives.

These include:

- *The Virgin Australia Employee Assistance Program.* A professional counselling service designed to assist team members to balance their work and personal lives.
- *The Virgin Australia Family Program.* An online resource that provides support to new parents and team members providing aged care.
- A range of flexible working arrangements across all levels of the organisation including part-time and casual positions; job-share; study support; special circumstances leave; and family support leave.

Pilot Cadet Program

The inaugural Virgin Australia Pilot Cadet Program launched in 2012. After receiving more than 1,200 applications, Virgin Australia appointed seven successful candidates, over half of which were female. Unlike any other Australian airline pilot cadet program, Virgin Australia assists all cadets financially, advancing upfront training course costs and accommodation and meals during their training period. The cadets undergo 55 weeks of training at Flight Training Adelaide at Parafield Airport South Australia before going on to operate as First Officers on our ATR 72-500/600 aircraft.

The environment

At Virgin Australia, understanding our impact on the environment is a critical part of our operations. We are committed to developing a sustainable business in Australia.

Fuel emissions are our largest environmental impact. Due to the airline's growth, total emissions increased to 3,277,298 tonnes $CO_{2\text{-}e}$ during 2013 financial year, up 5.6 per cent on the previous year.

Over 99 per cent of our total emissions are produced from aircraft fuel burn, and therefore our strategic approach towards climate change is primarily focused on fuel efficiency and sustainable biofuel development.

We have a cross-divisional fuel efficiency team in place who have helped introduce more than 20 initiatives during the year resulting in tens of millions of litres of fuel saved. Some of the initiatives include single engine taxi procedures for the entire fleet, reducing the on-board weight by loading less water and reducing catering packaging, utilising ground power when aircraft are at gates, and the continued implementation of Performance Based Navigation (PBN) procedures. We will continue to reap the benefits if these changes for years to come.

We continue to invest to ensure we maintain a young and fuel-efficient fleet. In April 2013 we acquired old and new Airbus A320, Fokker 100 and Fokker 50 aircraft formerly operated by Skywest Airlines. With the inclusion of these aircraft, the average age across our entire fleet is just 6.8 years, which continues to be below industry average. Compared on a like-for-like basis to last year, the average age of Virgin Australia's fleet has remained at 4.2 years for the 2013 financial year.

To support our target of sourcing 5 per cent of our aircraft fuel requirements from renewable jet fuel by 2020, we continue to foster relationships with leading industry stakeholders.

This year we actively participated in the newly formed Australian Initiative for Sustainable Aviation Fuel. This initiative brings together Australian leaders in the aviation industry and in the developing supply chain for biofuel, to promote and drive the development of the industry in Australia.

In conjunction with Brisbane Airport Corporation and SkyNRG we announced a unique project focused on establishing Australia's first *BioPort*. The aim of the project is to examine the feasibility of a cost-effective, reliable supply of biofuel, produced from harvested feedstock in regional Queensland for use in jet aircraft at Brisbane Airport.

We continue to play a role in driving innovative Australian research on aviation biofuels including the evaluation of the financial viability of its production in Queensland.

The results of a unique study as part of the Queensland Sustainable Aviation Fuel Initiative, of which Virgin Australia is the sole airline partner, were published in May 2013 as the culmination of almost three years of work by participants led by the University of Queensland. The study involved detailed techno-economic modelling of the processes to convert three feedstocks – sucrose from sugar cane; microalgae; and oily seeds from a tree called Pongamia – to produce a minimum selling price for aviation biofuel. The results showed that implementing these technological improvements could lower the prices of the biofuel produced from these feedstocks.

We continue to work with a range of stakeholders on the *Mallee Jet Fuel project* whose aim is to set up a supply chain to produce jet fuel from mallee trees in Western Australia. During the year a sustainability study was carried out confirming that the production of this fuel will not adversely impact food production or the environment, and will result in significantly less greenhouse gas emissions than conventional fossil-based jet fuel.

Waste and resource efficiency

Waste and resource efficiency remains an important focus for our sustainability program. We are a signatory to the Australian Packaging Covenant (APC) and are committed to minimising and recycling our waste.

In 2013 Virgin Australia commenced an Aircraft Sustainability Program which was designed to develop on-board initiatives with a particular focus on reducing waste and improving recycling. This included reducing the amount of packaging associated with in-flight meals by diverting 195 tonnes from landfills through reduction and re-use strategies. 30,000 disposable trays and 5,000 disposable drawers were modified to allow for multiple use on-board our aircraft.

We also introduced a new on-board recycling initiative that is currently being trialled on our Boeing 737 and Airbus A330 fleets. We will look to expand this program in the 2014 financial year.

Carbon pricing

We continue to offer customers the option to neutralise the emissions from their flight through our carbon offset program; *Fly Carbon Neutral. Fly Carbon Neutral* is voluntary for customers. It is important to note that the carbon credits purchased on behalf of customers who choose to offset their flights cannot be used by Virgin Australia to reduce our liability under the Australian Government's Carbon Price Mechanism (CPM).

Great Barrier Reef, Queensland

Our community

In the 2013 financial year, we continued to strengthen our community partnerships as part of our ongoing focus on youth at risk. Each of our partnerships enables us to support Australia's youth in a different way, promoting their wellbeing, education and development. Our strategy is to be actively involved in partnerships where we can make a real difference and encourage the participation of Virgin Australia team members.

Australian Indigenous Mentoring Experience

Virgin Australia is committed to improving education in Australia to ensure a better future for indigenous youth. Australian Indigenous Mentoring Experience (AIME) provides a dynamic educational program that gives indigenous high school students the skills, opportunities, belief and confidence to finish school at the same rate as their peers. This year we played a role in expanding the reach of AIME to include Perth and Adelaide. Using our domestic network to support the program's reach to 22 university sites around Australia, we provided more than 300 flights to AIME in the financial year. These flights assisted AIME in reaching over 1,000 indigenous high school students throughout metropolitan and regional areas around Australia.

Starlight Children's Foundation

A key part of our strategy to help youth at risk involves improving the lives of children that are seriously ill. Virgin Australia has been the official wish partner of the Starlight Foundation for the past two years, enabling Starlight to deliver life-changing wishes to an increasing number of seriously ill children and their families. We support the Starlight Foundation in a range of different ways, including providing flights for seriously ill children and their families, sponsoring and donating prizes to significant fundraising events, promoting fundraising opportunities in our airports and active involvement from our team members in the Starlight Express Rooms at hospitals. In just two years, 425 Starlight children have selected a wish that involved travel with Virgin Australia, more than $220,000 has been raised as a result of our prize donations at Starlight events and 400 new monthly donors worth over $160,000 per year have been recruited through a campaign run in our terminals at Sydney and Brisbane airports.

Surf Life Saving Australia

Surf Life Saving Australia (SLSA) plays a critical role in supporting youth at risk in Australia, reaching out to children and adolescents through education and community programs and supporting beach, pool and coastline safety. SLSA prides itself on offering education, lifeskills and giving back to the community and every year SLSA personnel are involved in over 65,000 emergency care treatments and 900,000 preventative actions. As the official airline partner, we used our communication channels including our in-flight entertainment system and magazine to promote SLSA's messages on the importance of beach, pool and coastline safety to Australian and inbound travellers from around the world.

Foodbank

Foodbank is a non-denominational, non-profit organisation which acts as a pantry to the charities and community groups who feed the hungry. Foodbank supports youth at risk through the distribution of food to over 640 schools who use it in prepared meals, food hampers and emergency parcels. During the 2013 financial year, Virgin Australia provided Foodbank with travel on its domestic network to establish and nurture relationships with the food industry and collect resources. As a result, Foodbank distributed more than 25 million kilograms of food, an increase of 6.7 per cent on the previous year.

Brisbane Youth Service

With a vision to provide *New Futures for Young People*, Brisbane Youth Service (BYS) has been operating in Brisbane since 1977, helping thousands of youth at risk. BYS assists young people to find and maintain appropriate housing, address physical and mental health issues, establish successful relationships and support networks as well as providing them with pathways to education and long-term employment. Virgin Australia team members in Brisbane are actively engaged in this partnership via an ongoing leadership program known as the *Business Champions* and are proud advocates of the local organisation.

Velocity Frequent Flyer

During the year, Velocity Frequent Flyer increased its focus on the community. Building on the ability to use points to support our existing community partners, we launched a new *Member Spotlight* initiative across our communication channels. This gives individual members the opportunity, for the first time, to promote causes they are passionate about to the broader membership base to assist with raising awareness and driving fundraising outcomes. This will continue to be a strong focus for Velocity Frequent Flyer moving into the 2014 financial year.

Virgin Australia and The Starlight Children's Foundation

Board of directors

Neil Chatfield – FCPA, FAICD

Independent Non-Executive Chairman

Member, Audit and Risk Management Committee

Chair, Nomination Committee

Member, Remuneration Committee

Member, Safety and Operational Risk Review Committee

Neil Chatfield was appointed to the Virgin Australia Board on 11 May 2006 and appointed Company Chairman on 14 June 2007.

Neil is an established executive and non-executive director with experience across a range of industries.

He has extensive experience in general and financial management, capital markets, mergers and acquisitions and risk management. His most recent executive role was executive director and Chief Financial Officer of Toll Holdings Ltd for over ten years to 2009. Neil is currently Chairman of Seek Ltd having been a non-executive director since 2005. He is also a director of Transurban Holdings Ltd and Grange Resources Ltd since 2009.

Neil was also a non-executive director of Whitehaven Coal Ltd from 2007 to 2012.

John Borghetti

Managing Director and Chief Executive Officer

Member, Safety and Operational Risk Review Committee

John Borghetti was appointed to the Virgin Australia Board on 8 May 2010.

John has more than 40 years' experience in the aviation sector having previously held a number of senior positions at Qantas, leaving the company in May 2009. John is a director of Energy Australia and the Australian Chamber Orchestra.

He was previously a director of CARE Australia (2005-2011), The Australian Ballet (2009-2011), Piper Aircraft (USA) (2009-2010) and Jetset Travelworld (2008-2009).

Joshua Bayliss – LLB (Hons), B.A

Non-Executive Director

Member, Nomination Committee

Joshua Bayliss was appointed to the Virgin Australia Board on 6 April 2011.

Joshua is Chief Executive Officer of the Virgin Group, based in Geneva. He has been with the Virgin Group since 2005, previously serving as the Group's General Counsel before taking on the CEO role in 2011. Joshua has extensive experience as a director of a large number of companies across the Virgin Group globally, combining investment holding and operational roles.

Joshua was previously Senior Associate at leading international law firm, Slaughter and May, based in London.

The Hon. Mark Vaile AO

Independent Non-Executive Director

Member, Audit and Risk Management Committee

Member, Nomination Committee

Chair, Safety and Operational Risk Review Committee

Mark Vaile was appointed to the Virgin Australia Board on 22 September 2008.

He is Chairman of Whitehaven Coal Ltd and Palisade's Regional Infrastructure Fund and was previously Chairman of CBD Energy Ltd. Mark is a director of Stamford Land Corporation Ltd, HostPlus Superfund Ltd and Servcorp Ltd. In 2012 Mark was appointed an Officer in the Order of Australia in the Queen's birthday honours list.

Mark was a Member of the Australian Parliament from 1993 to 2008. He was Deputy Prime Minister (2005-2007), Minister for Trade (1999-2006), Minister for Transport and Aviation (1997-1998, 2006-2007) and Minister for Agriculture (1998-1999).

Samantha Mostyn – B.A, LLB

Independent Non-Executive Director

Member, Nomination Committee

Chair, Remuneration Committee

Member, Safety and Operational Risk Review Committee

Samantha Mostyn was appointed to the Virgin Australia Board on 1 September 2010.

Samantha is a non-executive director and corporate advisor and has previously held senior executive positions at IAG, Optus and Cable & Wireless Plc. She is Chair of the Stakeholder Advisory Council of the CSIRO's Climate Adaptation Flagship. Samantha is a Board Member of the Australia Council for the Arts, Australian Volunteers International, the Sydney Theatre Company and Carriageworks. Samantha is an AFL Commissioner and in December 2011 was appointed a Commissioner with the National Mental Health Commission. Samantha became a director of Transurban Holdings Ltd in December 2010 and Citibank Australia in July 2011.

David Baxby – B.Com (Acct), LLB (Hons)

Non-Executive Director

Member, Nomination Committee

Member, Remuneration Committee

David Baxby was appointed to the Virgin Australia Board on 30 September 2004. He is also a director of Tiger Airways Australia Pty Ltd.

David was previously the Co-CEO of the Virgin Group until 30 June 2013 and his past directorships include Virgin Atlantic Ltd, Virgin Holidays Ltd, Virgin America Inc and Air Asia X. David was also an investment banker for ten years with Goldman Sachs.

Robert Thomas – B.Econ, MSAA, SF Fin

Independent Non-Executive Director

Chair, Audit and Risk Management Committee

Member, Nomination Committee

Member, Remuneration Committee

Robert Thomas was appointed to the Virgin Australia Board on 8 September 2006.

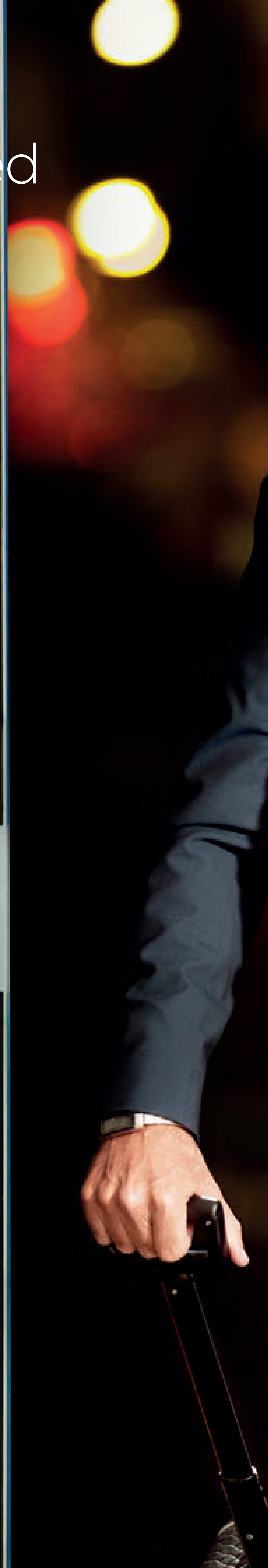
Robert has more than 40 years' experience in the securities industry. He is the Chairman of TAL Ltd, the Stockbrokers Association of Australia Ltd and Aus Bio Ltd. He is a director of Heartware International Inc, O'Connell Street Associates Pty Ltd, Grahger Capital Securities Pty Ltd, REVA Medical, Inc, and Biotron Ltd.

Robert is the President of the Library Council of NSW and is a member of the Inteq Advisory Board.

Virgin Australia Holdings Limited

Annual Financial Report for the year ended 30 June 2013

Contents



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

Virgin Australia Holdings Limited (VAH) is a company limited by shares, incorporated and domiciled in Australia. Details of its registered office and principal place of business are on page 159.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete and available globally at minimum cost to the Company. All press releases, financial reports and other information are available at our Shareholder Information Centre on our website: www.virginaustralia.com.

Virgin Australia lounge premium entry at Terminal 2, Sydney Domestic Airport

Directors' report

The directors present their report together with the consolidated financial statements of the Group comprising Virgin Australia Holdings Limited (VAH) (the Company) and its subsidiaries and the Group's interest in associates, for the financial year ended 30 June 2013 and the auditor's report thereon.

1. Directors

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

Mr Neil Chatfield
Ms Samantha Mostyn
Mr Robert Thomas
The Hon. Mark Vaile AO
Mr John Borghetti
Mr David Baxby
Mr Joshua Bayliss
Mr Keith Roberts (Alternate Director)

Details of directors, their qualifications, experience and any special responsibilities, including their Company committee memberships, are set out on pages 36 to 37. The details for Mr Keith Roberts, Alternate Director are outlined below:

Mr Keith Roberts M. Com (Hons) B. Bus. Alternate Director

Mr Keith Roberts was appointed as Alternate Director for Mr David Baxby from 28 November 2008 to 20 July 2013 and appointed as Alternate Director for Mr Joshua Bayliss on 17 May 2012.

Keith is the Global Head of Corporate Development and Strategy for the Virgin Group, based in Geneva. He is also responsible for Virgin Enterprises, Virgin's brand licencing arm and for leading Virgin Group's central brand team.

Prior to moving to Geneva in 2010, Keith was the Australian Country Head of Virgin Management Asia Pacific. Before joining Virgin in March 2008, he was a management consultant at Bain and Company for nine years.

1.1 Directorships of listed companies held by members of the Board

For the period 1 July 2010 to 30 June 2013:

	Listed company	Key dates
Mr N Chatfield	Virgin Australia Holdings Limited	Current, appointed 11 May 2006
	Seek Limited	Current, appointed 9 June 2005
	Grange Resources Limited	Current, appointed 2 January 2009
	Transurban Holdings Limited	Current, appointed 18 February 2009
	Whitehaven Coal Limited	Ceased, appointed 3 May 2007 and ceased 3 May 2012
Ms S Mostyn	Virgin Australia Holdings Limited	Current, appointed 1 September 2010
	Transurban Holdings Limited	Current, appointed 8 December 2010
Mr R Thomas	Virgin Australia Holdings Limited	Current, appointed 8 September 2006
	Heartware International, Inc	Current, appointed 26 November 2004
	Biotron Limited	Current, appointed 7 March 2012
	REVA Medical, Inc	Current, appointed 28 July 2010
Mr M Vaile AO	Virgin Australia Holdings Limited	Current, appointed 22 September 2008
	Servcorp Limited	Current, appointed 27 June 2011
	Whitehaven Coal Limited	Current, appointed 3 May 2012
	CBD Energy Limited	Ceased, appointed 8 September 2008 and ceased 31 January 2013
Mr J Borghetti	Virgin Australia Holdings Limited	Current, appointed 8 May 2010
Mr D Baxby	Virgin Australia Holdings Limited	Current, appointed 30 September 2004
Mr J Bayliss	Virgin Australia Holdings Limited	Current, appointed 6 April 2011
Mr K Roberts (Alternate Director)	Virgin Australia Holdings Limited	Current (for Mr J Bayliss), appointed 17 May 2012
		Current(1) (for Mr D Baxby), appointed 28 November 2008

(1) Ceased 20 July 2013.

1. Directors (continued)

1.2 Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

	Board Meetings		Audit and Risk Management Committee Meetings		Remuneration Committee Meetings		Nomination Committee Meetings		Safety and Operational Risk Review Committee Meetings	
Director	Attended	Held#	Attended	Held#	Attended	Held#	Attended	Held#	Attended	Held#
Mr N Chatfield	12	12	6	6	4	4	2	2	4	5
Ms S Mostyn	12	12	–	–	4	4	2	2	4	5
Mr R Thomas	12	12	6	6	4	4	2	2	–	–
Mr M Vaile AO	11	12	6	6	–	–	2	2	5	5
Mr J Borghetti	12	12	–	–	–	–	–	–	5	5
Mr D Baxby	11	12	–	–	3	4	1*	2	–	–
Mr J Bayliss	10	12	–	–	–	–	1*	2	–	–
Mr K Roberts (Alternate Director)	–	–	–	–	–	–	–	–	–	–

Number of meetings held during the time the director held office during the year.

* Attendance was not required at a Nomination Committee Meeting due to a declared conflict of interest.

1.3 Directors' interests

The relevant interest of each director in shares and rights or options over such instruments issued by the companies within the Group and other related bodies corporate, as notified by the directors to the Australian Securities Exchange (ASX) in accordance with section 205G(1) of the *Corporations Act 2001*, at the date of this report is as follows:

Director	Number of ordinary shares	Options over ordinary shares
Mr N Chatfield	1,200,392	–
Ms S Mostyn	125,000	–
Mr R Thomas	485,920	–
Mr M Vaile AO	30,000	–
Mr J Borghetti	1,924,302	11,853,804
Mr D Baxby	40,000	–
Mr J Bayliss	–	–
Mr K Roberts (Alternate Director)	12,000	–

2. Company secretary

Mr Adam Thatcher, B.Com LLB, was appointed as General Counsel and Company Secretary on 6 July 2011 after having been appointed as General Manager, Legal of the Group in November 2010. Adam is a corporate and commercial lawyer with over 26 years experience and was a partner at one of Australia's leading law firms, Allens Arthur Robinson, until the end of 2009. During his 20 years as a partner he specialised in finance, infrastructure and corporate recovery as well as general commercial law. He is currently a director of the Bluewater Property Trust, a syndicated property development company and of Q-Music which is a music industry development association based in Queensland.

3. Corporate governance statement

This statement outlines the main corporate governance policies and practices in place throughout the financial year, which comply with the ASX Corporate Governance Council Principles and Recommendations, unless otherwise stated.

3.1 Role and structure of the Board

The Board has a Charter which establishes its role and responsibilities and also sets out the responsibilities which have been delegated to senior management. A copy of the Board Charter is available on the Company's website, www.virginaustralia.com.au.

The primary role of the Board is to provide strategic guidance for the Group and effective oversight of management. To assist in the performance of its role, the Board has established a number of Committees which have specific roles and responsibilities in key areas.

The Board has delegated to the Chief Executive Officer (CEO) authority over the day to day management of the Group. Specific areas of responsibility which have been delegated to the CEO are set out in the Board Charter. The CEO is authorised to delegate the powers conferred on him as he deems appropriate.

Role of the Board

As at 30 June 2013, the Board had seven directors, comprised as follows:

- Four directors of the Company are independent, non-executive directors;
- Two directors of the Company have been elected after being nominated by Virgin Group and act as its representatives; and
- The remaining director is the Managing Director, who is also the CEO.

Effective from 1 July 2013, the Board will be comprised as follows:

- Four directors of the Company being independent, non-executive directors;
- One director being a non-executive director;
- One director of the Company being elected after being nominated by Virgin Group and acting as its representative; and
- The remaining director being the Managing Director, who is also the CEO.

A majority of the Board is independent, the Chairman is an independent director and the roles of Chairman and CEO are not exercised by the same individual. Each of the directors is a senior and experienced executive with skills and experience necessary for the proper supervision and leadership of the Group. As a team, the Board bring together a broad range of qualifications, in both the international and Australian markets, with considerable experience and expertise in aviation, transport, finance, accounting, risk management, sustainability, and public company affairs. Details regarding the Group's directors, including their relevant skills, experience, expertise and terms of office can be found at pages 36 and 37.

The Company believes that the current size and composition of the Board is conducive to making appropriate decisions and incorporates a variety of perspectives and skills in order to represent the best interests of the Company as a whole.

Director independence

All directors, whether independent or not, are required to bring independent judgement to bare on Board decisions. The Board considers that, fundamentally, the independence of directors is based on their capacity to put the best interests of the Company and its shareholders ahead of all other interests, so that directors are capable of exercising objective independent judgement. Capacity to act independently and the skill sets and experience of individual directors to complement the skills and experience of the Board overall are critical criteria in candidate selection. The capacity for individual directors to add value to the Board is very important.

When evaluating candidates, the Board has regard to the potential for conflicts of interest, whether actual or perceived, and the extent or materiality of these in the ongoing assessment of director independence. In this respect the Board has regard to the definition of independence in the ASX Corporate Governance Principles and Recommendations. The Board does not believe that the existence of one or more of the relationships in the definition will necessarily result in the relevant director not being classified as independent, particularly given the criteria outlined above, and that the Company will seek to implement additional safeguards to ensure independence. An overall review of these considerations is conducted by the Board to determine whether individual directors are independent.

Additional policies, such as directors not being present during discussions or decision making on matters in which they have or could be seen to potentially have a material conflict of interest, in addition to directors being excluded from taking part in the appointment of third party service providers where the director has an interest, provide further separation and safeguards to independence. The Board has considered materiality thresholds in relation to independence, but has determined not to establish fixed thresholds, believing that, if taken in isolation and out of context, these can be misleading and inconclusive.

3. Corporate governance statement (continued)

3.1 Role and structure of the Board (continued)

Board committees

During the 2013 financial year, the Board had four committees of directors: the Audit and Risk Management Committee, the Remuneration Committee, the Nomination Committee and the Safety and Operational Risk Review Committee. Each committee has a documented Charter approved by the Board, copies of which can be found on the Company's website.

Committee composition as at the date of this report is as follows:

Committee	Members	Composition	Key Roles and Responsibilities
Audit and Risk Management Committee	Mr R Thomas (Chair) Mr N Chatfield Mr M Vaile AO	Consists only of independent non-executive directors. Has an independent chair who is not chair of the Board. Has at least three members. All members are financially literate. Two members have relevant qualifications and experience.	Review and assessment of the integrity of financial reporting. Monitoring the performance of internal and external audit, including oversight of qualifications, independence and fees of the external auditor. Review of risk management policies, processes and profile, including the adequacy of insurance cover. Review of the compliance framework and financial information required by regulators.
Remuneration Committee	Ms S Mostyn (Chair) Mr N Chatfield Mr R Thomas Mr D Baxby	Consists only of non-executive directors. Has a majority of independent directors. Has an independent chair. Has at least three members.	Remuneration of non-executive directors, the CEO and Group Executives. Review of performance assessment processes and results for the CEO and Group Executives. Agree policies for the recruitment, retention and termination of Group Executives. Agree policies for employee incentive schemes and superannuation.
Nomination Committee	Mr N Chatfield (Chair) Ms S Mostyn Mr R Thomas Mr M Vaile AO Mr D Baxby Mr J Bayliss	Has a majority of independent directors. Has an independent chair. Has at least three members.	Composition of the Board. Director and CEO succession planning. Induction and ongoing development of directors. Performance appraisal of the Board, its Committees, each director and the CEO.
Safety and Operational Risk Review Committee	Mr M Vaile AO (Chair) Mr N Chatfield Ms S Mostyn Mr J Borghetti	Has an independent chair. Has at least three members.	Oversight of operational safety, health and security risks. Maintain best practice in operational safety management, including compliance with legal and regulatory obligations and internal systems of control. Review the establishment and operation of operational risk management systems. Monitoring operational risk management processes maintained by providers and codeshare partners. Monitoring serious investigations and remedial actions.

3. Corporate governance statement (continued)

3.1 Role and structure of the Board (continued)

Director selection

The Board has established a Nomination Committee which makes recommendations to the Board regarding the size and composition of the Board and the appointment and re-election of directors. A copy of the Charter of the Nomination Committee is available on the Company's website. The names of the members of the Nomination Committee and their attendance at meetings are disclosed at pages 41 and 43.

The Nomination Committee is responsible for developing plans to identify the necessary and desirable competencies and skills of directors and succession plans to ensure there is an appropriate mix of skills, experience, expertise and diversity on the Board.

Where necessary, the Company utilises the services of professional advisors to identify and assess potential Board candidates.

Director induction, development and access to information

The Nomination Committee has responsibility for developing systems for induction procedures and the ongoing training and development of directors.

The Company has in place induction procedures which allow new directors to participate fully and actively in decision-making at the earliest opportunity. Directors are able to access continuing education to update and enhance their skills and knowledge and have the right of access to all relevant Company information and senior executives, including the Company Secretary, to provide them with information regarding key developments in the Company and the industry.

Board meetings are held on a regular basis, with briefing material being provided to each director at least seven days prior to each meeting. The Company Secretary is responsible for coordinating the timely completion and despatch of Board agenda and briefing material. Senior executives are invited to make presentations at Board meetings which provide the ability for directors to engage in discussions and request additional information on relevant topics.

Subject to prior consultation with the Chairman, directors may seek independent professional advice (including legal advice) from a suitably qualified advisor at the Company's expense. Except in extraordinary cases (where the director will have notified the other Board members in writing), a copy of any such advice received is to be made available to other directors.

Performance evaluation

The Board conducts an annual self-assessment of the performance of the Board, its committees and individual directors. In addition, externally facilitated performance evaluations are undertaken on a regular basis, with the most recent externally facilitated performance evaluation being conducted during the 2010 financial year.

3.2 Remuneration

Remuneration structure

The Group's remuneration structures strive to fairly and responsibly reward employees, while complying with all relevant regulatory requirements. Remuneration for the CEO and senior executives consists of fixed remuneration and short-term and long-term incentive plans.

Non-executive directors are remunerated by way of fees and do not participate in schemes designed for the compensation of executives. They do not receive options or bonus payments and are not provided with retirement benefits other than statutory superannuation.

Further details of compensation of directors and key management personnel can be found in the remuneration report at pages 56 to 72.

Remuneration Committee

The Board has established a Remuneration Committee to ensure there is an efficient mechanism for focussing the Company on setting and implementing appropriate remuneration policies. A copy of the Charter of the Remuneration Committee is available on the Company's website.

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policies, structure and quantum applicable to the senior executives and non-executive directors. The Committee may seek any information it requires from any employee in order to perform its duties and may appoint remuneration consultants or other advisors as appropriate at the Company's expense. The Committee ensures that no employee is directly involved in deciding their own remuneration.

The names of the members of the Remuneration Committee and their attendance at meetings are disclosed at pages 41 and 43.

3. Corporate governance statement (continued)

3.3 Ethical and responsible decision making

Ethics

The Group has adopted a number of policies which promote ethical and responsible decision making.

The Guide to Business Conduct applies to all directors, employees and contractors working for the Group and formalises the Group's belief that business objectives are best achieved through acting at all times fairly, honestly and with integrity. It contains policy statements and summaries of the behaviour expected of employees and contractors in many key areas of business conduct.

The Code of Conduct applies to directors and senior executives and further reflects the commitment of the Group to ethical standards and practices. This code deals with issues specific to directors and senior executives. Copies of both the Guide to Business Conduct and the Code of Conduct are available on the Company's website.

The Keeping Our Workplace Fair Policy makes employees accountable for creating an environment in which people, including employees, guests, customers and suppliers, are treated fairly and equitably and with dignity, courtesy and respect. This policy is supported by the A Fair Go Policy which aims to ensure that concerns within the workplace are resolved as quickly and effectively as possible.

The Group has a Gifts Policy which clearly defines and communicates the parameters for accepting gifts. The policy outlines prohibited gifts and the approval process for accepting gifts.

The Group has an Ethics Hotline which can be used by employees to report any conduct which may be unethical or improper. All reports to the Ethics Hotline, which is provided by an external independent provider, are able to be made confidentially and anonymously and are thoroughly investigated.

The Group has also established a Whistle-Blower Policy to ensure that employees who make a report are protected from adverse behaviour as a result of making a report.

Securities trading policy

The Company has implemented a policy on securities trading which binds all directors and employees of the Group. The policy ensures that all employees and directors are aware of the legal restrictions on trading in the Company's securities while in possession of unpublished price-sensitive information. Directors and senior executives are required to obtain consent prior to dealing in the Company's securities.

Trading is not permitted in nominated blackout periods, which apply in the six weeks before, and one trading day after, the release of the Company's half-year and full-year results. Short-term trading and hedging economic exposure to unvested options issued pursuant to an employee option plan is prohibited. Directors and the CEO are prohibited from obtaining margin loans using the Company's securities as security for loans. A copy of the Securities Trading Policy is available on the Company's website.

Diversity and inclusion

The Group is committed to providing a workplace and organisational culture that values diversity and inclusion across all levels of the business. The Group recognises and acknowledges the contribution of people with diverse backgrounds, experience and perspectives. This includes, however is not limited to, differences in gender, cultural background, ethnicity, sexual orientation, disability and age.

The Group fosters a culture in which all people treat each other with mutual respect and are recruited, developed and promoted on the basis of merit. To support its commitment, the Group has established a Diversity and Inclusion Strategy. Under the Strategy, the Board is responsible for establishing measurable gender diversity objectives and reviewing progress in achieving the objectives on an annual basis.

Through targeted initiatives, the Group has made significant progress towards improving diversity and inclusion, with a particular focus on achieving market leading outcomes for both female and indigenous team members.

Progress in relation to the Group's gender objectives in the 2013 financial year was as follows:

- Females make up 50.2% of the Group's overall workforce;
- Females hold 37.5% of key management personnel (KMP) positions as at 30 June 2013;
- Females hold 16.7% of non-executive director positions;
- Female representation in senior management positions across the Group has increased from 31.0% to 33.2%;
- Targeted activities to maximise gender pay equity continued across the business, with a reduction in the gender pay gap; and
- Development opportunities were identified for women to continue to progress them to senior positions.

The Group's Aboriginal and Torres Strait Islander Strategy, focuses on targeting the under representation of Indigenous team members within the Group. This Strategy endeavours to employ representative numbers of Indigenous team members, as measured against the general population.

3. Corporate governance statement (continued)

3.3 Ethical and responsible decision making (continued)

Diversity and inclusion (continued)

Progress in relation to the Group's Indigenous objectives in the 2013 financial year was as follows:

- The Group has had 27 new Indigenous team members commence. The Group now has 82 Indigenous team members in the Group who work within various functions and disciplines;
- Cultural Awareness training was delivered to over 150 employees; and
- A number of partnerships with Indigenous organisations continued.

In relation to the Group's other objectives for the 2013 financial year, progress was as follows:

- The Mental Health and Wellness Policy was launched;
- A Mental Health training program was developed for launch in the 2014 financial year. Working with Black Dog, an Australian clinical and research facility for mental health and well-being, the program aims to reduce the incidence and impact of mental health issues in the workplace, and enhance team member performance and resilience in the face of adversity and change;
- We continued to strengthen the Group's inclusive culture through a range of initiatives. This included refreshing the Group's Family Program which is designed to provide practical support and services that make family and work commitments easier to balance and a dedicated Wellness Support team to coach and mentor team members delivering the Unify Program (the SabreSonic booking and check-in system cutover); and
- Significant work was undertaken on developing an Access strategy for guests with disabilities at airports and on the Group's aircraft. We will build on this work to establish a framework to attract, support and retain team members with disabilities.

The Group proudly recognises the increased diversity amongst KMP in the 2013 financial year. The Group is committed to broadening the Diversity and Inclusion Strategy as illustrated by the KMP group. The Group will continue to engender a culture where people with differences in background, experience, perspectives, gender, cultural background, ethnicity, disability, sexual orientation and age are celebrated.

The following Diversity and Inclusion objectives, to be achieved by the end of the 2014 financial year, have been established by the Board:

- Increase overall female representation within the Group to 51%;
- Achieve greater than 35% female representation within KMP roles;
- Increase the proportion of senior management positions held by females to 37%;
- Create and agree a framework to attract, support and retain team members with disabilities;
- Proactively educate all business leaders around diversity and cultural awareness; and
- Roll-out the Mental Health training program.

Additionally, the following initiatives will continue to underpin the Diversity and Inclusion Strategy and position the Group as an employer of choice:

- Identification of development opportunities and targeted development activities for women that prepare them to take on senior positions with confidence and capability;
- Strengthen the Group's inclusive culture through the new Group Values Compass and clear accountability for values-driven leadership behaviour across all levels of the organisation;
- On-going review of gender pay gaps and targeted actions to reduce any differences; and
- Strong emphasis on the Group's Indigenous Employment program.

Progress against the achievement of these objectives will be reported in the 2014 annual report.

3.4 Integrity in financial reporting

The Board has established the Audit and Risk Management Committee whose role is to assist the Board to discharge its oversight responsibilities relating to:

- The preparation, integrity and reporting of the Company's financial statements;
- The external and internal audit functions;
- Internal controls, policies and procedures that the Company uses to identify and manage business risks;
- The risk policy and risk profile;
- The effectiveness of internal control systems; and
- Compliance with legal, accounting and regulatory requirements and policies.

3. Corporate governance statement (continued)

3.4 Integrity in financial reporting (continued)

The Audit and Risk Management Committee has authority to conduct or direct any investigation required to fulfil its responsibilities, may require the attendance of members of management at Committee meetings and has direct access to any employee or contractor, the external auditors or any other independent experts and advisors as it considers appropriate in order to ensure that its responsibilities can be carried out effectively.

The CEO and the Chief Financial Officer (CFO) declare in writing to the Board that the financial records of the Company for the financial year have been properly maintained, that the Company's financial reports for the financial year comply with Australian accounting standards and present a true and fair view of the Company's consolidated financial position and operational results. This statement is required annually and is made in accordance with section 295A of the *Corporations Act 2001*.

The CEO and the CFO also declare, in writing to the Board, that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

Monthly actual results are reported against budgets approved by the Board and revised forecasts for the year are prepared periodically.

The Audit and Risk Management Committee reviews the half-yearly and annual financial statements and narrative reporting prior to making recommendations to the Board and reviews with management the adequacy of accounting policies and any significant accounting and financial reporting issues raised by internal or external audit.

The Audit and Risk Management Committee recommends to the Board the appointment, rotation, evaluation and removal of the external auditor and reviews the external auditor's terms of engagement, audit fees and proposed audit plan. At least bi-annually it reviews the external auditor's independence declaration.

The Committee also conducts a periodic assessment of the performance and independence of the internal audit function and reviews management action plans in response to internal audit findings.

Details of names and relevant qualifications of those directors appointed to the Audit and Risk Management Committee, the number of meetings the Audit and Risk Management Committee held during the financial year ended 30 June 2013, and the names of the attendees can be found on pages 36 and 37, and 41 respectively. The Charter of the Committee is available on the Company's website.

3.5 Disclosure and the rights of shareholders

The Company's commitment to providing the market with timely and balanced disclosure is embodied in its Market Disclosure and Communication Policy, which contains policies and procedures designed to ensure accountability at senior management level for compliance with disclosure obligations. The policy addresses the Company's responsibility to ensure its market announcements are made in a timely manner, are factual, do not omit material information and are expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions.

The Company's full-year and half-year financial reports, annual report, notice of annual general meeting, announcements to the market, media releases and investor briefing presentations are available through the Company's website. Commentary on the Company's financial results are provided to enhance the clarity and balance of reporting and to ensure that investors are provided with information to assist them in making an informed assessment of the Company's activities and results.

Shareholders who request a hard copy of the annual report will have one provided to them, and shareholders may lodge their proxy votes online or by mail. The Company makes its annual general meeting available via webcast on its website. The Company's external auditor attends the annual general meeting and is available to answer any shareholder questions about the conduct of the audit and the preparation and content of the independent auditor's report.

A copy of the Company's Market Disclosure and Communication Policy is available on the Company's website.

3.6 Recognising and managing risk

Risk management system

The Board believes that it has ultimate responsibility to ensure that the Company's risk management systems are both in place and effective. To discharge that responsibility, the Board through its Audit and Risk Management Committee and Safety and Operational Risk Review Committee continues to enhance the systems of risk management and oversight that cover the key strategic, financial, commercial, operational and compliance risks of the Group.

The Risk Management Policy, standard and matrix are dynamic documents that evolve with the changes in strategic direction of the Company. A copy of the Risk Management Policy is available on the Company's website.

Risk management forms an integral part of all decision making and as such, is embedded into the Company's existing processes. The Company is continuously evaluating ways to improve its risk management practices, hazard management and the successful implementation and management of risk controls.

3. Corporate governance statement (continued)

3.6 Recognising and managing risk (continued)

Risk management system (continued)

Awareness of, and compliance with, regulation and legislation is also critical to the ongoing sustainability of the business. To this end, teams have been established across the business to coordinate risk management within the Company and to assist each department in undertaking its own risk assessments, tracking and monitoring progress on the implementation of risk action plans, and the facilitation of risk reporting to the Executive Committee and the Board.

The CEO and the CFO have declared, in writing to the Board, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. The operational and other risk management compliance and controls have also been assessed and found to be operating efficiently and effectively. All assessments covered the whole financial period up to the signing of the annual financial report for all material operations of the Group.

Internal audit

Internal audit assists the Board by providing independent and objective assurance and consulting services that are designed to improve the effectiveness of the Company's risk management, control and governance processes. It also partners with management to add value by assisting in the achievement of both strategic and operational objectives. The Audit and Risk Management Committee is responsible for approving the program of internal audits to be conducted each financial year and the scope of the work to be performed. The Audit and Risk Management Committee periodically assesses the performance of the internal audit function and monitors the implementation of internal audit recommendations by management. The Audit and Risk Management Committee is responsible for recommending to the Board the appointment and dismissal of the General Manager, Internal Audit.

Environmental regulation

The Group's operations are subject to noise pollution and other similar environmental regulations. The directors believe that the Group has adequate systems in place for the management of its environmental requirements and are not aware of any breach of those environmental requirements as they apply to the Group.

4. Review and results of operations

4.1 Overview of the Group

Virgin Australia Holdings Limited (Virgin Australia) launched in 2000 and has since established itself as a contemporary, full service airline, with a reputation for exceptional customer service.

The airline employs more than 9,000 people in Australia, New Zealand and the United States of America (USA). Virgin Australia has strategic alliances with four key airline partners: Air New Zealand Limited, Delta Air Lines Inc., Etihad Airways P.J.S.C and Singapore Airlines Limited, providing customers with access to over 400 destinations worldwide. Its domestic and international operations are complemented by Virgin Samoa Limited, a joint venture arrangement with the Government of Samoa.

Virgin Australia operates a modern fleet of aircraft that include Boeing B737 and Boeing B777 aircraft, Airbus A320 and A330 aircraft, ATR aircraft, Embraer E190 aircraft and Fokker F50 and Fokker F100 aircraft that fly to a range of Australian domestic ports, including regional network operations and international destinations comprising of Trans-Pacific, Abu Dhabi, Trans-Tasman, Pacific Island and South East Asian routes. The airline offers a variety of airfares and products to suit the leisure, corporate, government and regional markets.

Game Change Program Strategy

Virgin Australia introduced the Game Change Program Strategy in the 2011 financial year, a strategy designed to position the Group as the airline of choice in all market segments and ensure delivery of sustainable earnings benefits to the business in the future. The program utilises Virgin Australia's competitive cost base and its strong operational excellence to achieve these goals.

The first phase of the Game Change Program Strategy was based on five pillars:

- Ensure Virgin Australia's capacity is closely aligned to profitability;
- Establish a virtual global network through strategic airline alliances;
- Grow Virgin Australia's share of the Australian corporate business from 10% to 20%;
- Maintain Virgin Australia's strong presence in the leisure market; and
- Enhance Virgin Australia's already strong brand in Australia and in overseas markets.

4. Review and results of operations (continued)

4.1 Overview of the Group (continued)

Game Change Program Strategy (continued)

During the last two years, Virgin Australia has continued to implement the Game Change Program Strategy and has made significant progress in its goal to create a seamless, first-rate experience for passengers, both in the air and on the ground. A key part of this was updating the look and feel of the product in line with the new Virgin Australia identity and the introduction of a range of new service initiatives designed to enhance the end-to-end passenger experience. To meet these objectives, Virgin Australia redesigned the interiors of its aircraft, launched new airport lounges and commenced the refurbishment of key airport terminals.

Having achieved the goals of the first phase of the Game Change Program Strategy ahead of schedule, the Company commenced the Game On phase of the strategy during the 2013 financial year, which revolves around driving new growth opportunities for the business, while retaining a cost-efficient, flexible business model.

This phase is formed around five key strategic pillars:

- Implementing a business efficiency project;
- Building a transformational loyalty business;
- Increasing access to global markets;
- Further enhancing the guest experience through in-flight and on-the ground innovation; and
- Continuing to develop our people and service excellence.

Two key acquisitions were completed as part of the Game On phase. On 19 April 2013, Virgin Australia completed its acquisition of a 100% interest in Skywest Airlines Pte Limited (formerly known as Skywest Airlines Ltd), a regional carrier based in Western Australia. The acquisition provides Virgin Australia with the assets and capabilities to fast-track its advancement into the fly-in-fly-out and regional markets in Western Australia. In addition, Virgin Australia acquired a 60% interest in Tiger Airways Australia Pty Limited (Tigerair Australia) on 8 July 2013 as disclosed in section 4.4(a). The acquisition has enabled Virgin Australia to re-enter the budget travel market segment with an aim of working with Tiger Airways Holdings Limited to establish Tigerair Australia as a stable and respected budget carrier in Australia.

The Group's business model revolves around positioning Virgin Australia as the airline of choice in the corporate, regional and high-end leisure market segments, while positioning Tigerair Australia as the airline of choice in the budget market segment.

Now that the Virgin Australia brand has established a strong presence in the leisure and corporate, and government market segments, the Group is focused on ensuring a leadership position is maintained in these areas, and increasing its presence in the regional market segment through the Virgin Australia brand and in the budget market segment through its investment in the Tigerair Australia brand.

Significant risks and uncertainties

Virgin Australia is exposed to a range of risks associated with operating in the domestic and international airline industry. These include:

- Aviation fuel price trends, which can significantly affect fuel 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;
- Governmental policy changes or decisions which could have an adverse impact on its business, results of operations and financial condition;
- Industrial action by unionised employees, which can adversely impact operations and staff engagement;
- Stability of critical systems, including technology and communication services, which can disrupt operations;
- Global economic and geopolitical conditions, as well as pandemics, severe weather conditions, natural disasters or other Acts of God, which can materially adversely affect operations and demand for air travel;
- 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; 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 result in impairment of the Group's cash-generating units (CGUs). Impairment testing is performed on an annual basis to determine if the impact of key risks has generated impairment losses during the financial year and consider the potential impacts, through sensitivity testing, for future financial years. Refer to note 22(d) to the consolidated financial statements.

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

The identification and management of risk reduces the uncertainty associated with the execution of Virgin Australia's business strategies and allows the Group to maximise opportunities that may arise. All staff are accountable for identifying, assessing and managing risks in a proactive manner. Virgin Australia 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. The risk management system implemented by the committee is described in further detail in section 3.6 of the Corporate governance statement on page 47.

4. Review and results of operations (continued)

4.1 Overview of the Group (continued)

Significant risks and uncertainties (continued)

Virgin Australia is committed to managing risks in a proactive and effective manner to provide assurance to the Board of Directors and stakeholders. This commitment is supported by Virgin Australia's philosophy and approach in effective risk management and is in line with the principles outlined in the Mission Statement, Safety Policy, Just Culture Policy and Risk Management Policy of the Group.

Virgin Australia actively and systematically manages risks related to its operations. This management includes:

- Operating a comprehensive risk management framework throughout the business that sets out Virgin Australia's objectives regarding risk management and outlines Virgin Australia's Risk Management Standards and specific accountabilities and responsibilities for risk management;
- Managing safety-related risks across our business, and striving for continuous improvement in safety practices. Virgin Australia is audited every two years against a global standard, by an accredited IATA Operations Safety Audit (IOSA) Audit Organisation;
- Conducting a thorough business planning process throughout the organisation; and
- Maintaining a comprehensive hedging program. The tiered hedging policy introduced late in the 2011 financial year has positioned the Group well to operate in a continuing high fuel cost environment. The policy has provided the Group with a large degree of certainty in the short-term, while maintaining flexibility in the longer-term.

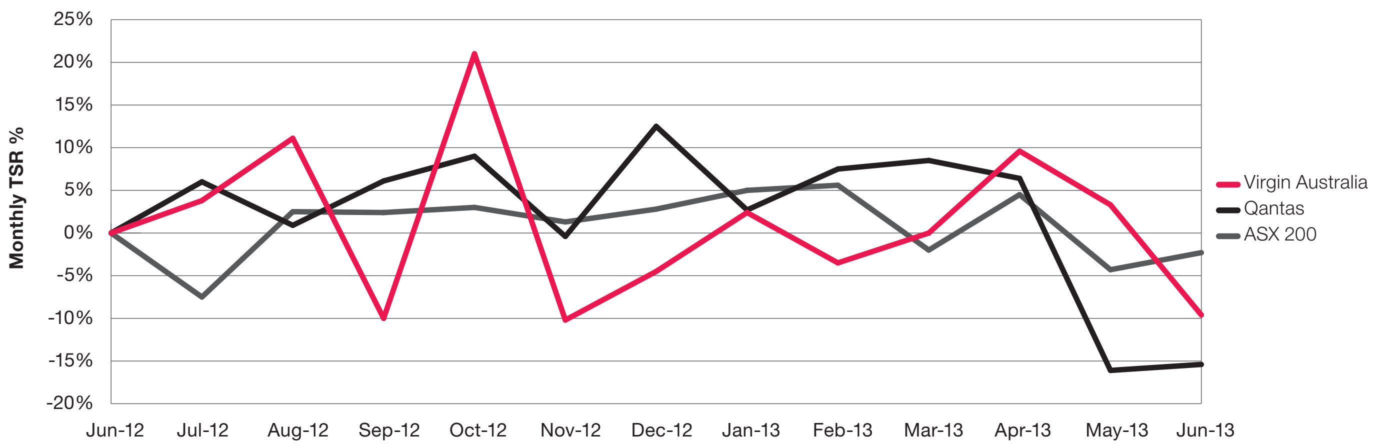
4.2 Shareholder returns

Total shareholder return (TSR) for the financial year ended 30 June 2013 was 10.3%. The following table provides further details:

Performance history over the past five years

		2013	2012	2011	2010	2009
Earnings						
Net (loss)/profit after tax attributable to ordinary equity holders	$ millions	**(98.1)**	22.8	(67.8)	21.3	(160.0)
Basic earnings per share	cents per share	**(4.1)**	1.0	(3.1)	1.0	(11.6)
Return on equity						
Return on average ordinary shareholders' funds	%	**(0.1)**	–	(0.1)	–	(0.3)
Total shareholders returns						
Dividends per share	cents per share	**–**	–	–	–	–
Share price at 30 June	$	**0.43**	0.39	0.28	0.30	0.27
Annual total shareholder return	%	**10.3**	39.3	(6.7)	11.1	(32.5)
Five-year total shareholder return	%	**7.5**				

Virgin Australia TSR performance v Peer Groups %



4. Review and results of operations (continued)

4.3 Review of financial condition

(a) Statement of profit or loss

Virgin Australia recognised revenue and other income of $4,020.4 million for the financial year ended 30 June 2013, despite a difficult economic and competitive environment, indicating continued revenue growth in line with the corporate Game Change Program Strategy introduced in the 2011 financial year. During the 2013 financial year the Group continued its program of repositioning strategies aimed at driving further growth opportunities for the Group and improvements in future results. The impact of these key business transformation initiatives on the overall increase in operating expenses was $105.1 million as net operating expenses increased by $272.0 million, from $3,852.6 million to $4,124.6 million.

Statement of profit or loss summary	2013 $m	2012 $m	Movement $m	Movement %
Revenue	**3,987.8**	3,913.5	74.3	1.9
Other income	**32.6**	6.0	26.6	443.3
Revenue and income	**4,020.4**	3,919.5	100.9	2.6
Net operating expenses	**4,124.6**	3,852.6	272.0	7.1
(Loss)/profit before related income tax benefit/(expense) and net finance costs	**(104.2)**	66.9	(171.1)	(255.8)
Net finance costs	**(45.5)**	(39.7)	(5.8)	14.6
(Loss)/profit before related income tax benefit/(expense)	**(149.7)**	27.2	(176.9)	(650.4)
Income tax benefit/(expense)	**51.6**	(4.4)	56.0	(1272.7)
Net (loss)/profit	**(98.1)**	22.8	(120.9)	(530.3)

(i) Revenue and income

Revenue and income increased 2.6% to $4,020.4 million for the financial year ended 30 June 2013 from $3,919.5 million in the prior corresponding period. This increase was mainly due to increased yields on international routes stemming from higher prices and ticket sale volumes and partially offset by decreases in the number of guests flying across all segments due to a difficult economic and competitive environment.

While airline passenger revenue decreased by $34.6 million, other revenue increased $108.9 million mainly due to redemptions within the Velocity frequent flyer program as membership strengthens and redemption opportunities expand.

Revenue load factor(1) decreased by 2.5 points to 75.6% from 78.1% in the prior corresponding period.

Group yield remained stable compared with the prior corresponding period, with strong growth in the final quarter of the 2013 financial year, attributable to benefits associated with Game Change Program strategic repositioning and the transition to a ticketed environment.

Underlying CASK(2) (excl. fuel) was approximately equal to that of the 2012 financial year due to strong controls on costs, even with significant enhancements to product and service.

(ii) Net operating expenses

The Group's net operating expenses increased 7.1% to $4,124.6 million for the financial year ended 30 June 2013 from $3,852.6 million in the prior corresponding period. Key drivers of this year on year movement are largely synonymous with implementation of key Game Change Program strategies of the Group as noted below:

- Increased fuel consumption – reflective of increased ticket sales and route expansion in line with the Group's Game Change Program strategies.
- Increased labour and staff related expenses of $134.7 million due to an investment in the Group's people, further expanding the workforce to introduce a range of new product and service initiatives designed to enhance the travel experience for all guests throughout the 2013 financial year. The Group's transition to the new SabreSonic booking and check-in system across its domestic and international networks was one of the key labour intensive initiatives of the 2013 financial year. Its implementation resulted in a range of benefits for guests including faster service, streamlined travel with partner airlines and more options for flight bookings.
- Increased catering costs of $55.0 million, reflective of the commitment to provide inclusive in-flight catering and entertainment services for our guests regardless of the fare type purchased on all routes with a flight time of greater than 2 hours 45 minutes. This initiative commenced for several routes during 2013 financial year and will be extended across additional routes in the coming year.

(1) Revenue Load Factor means RPKs as a percentage of ASKs. International and Total Network Revenue Load Factor metrics include Virgin Australia and International Alliance Partner ASK and RPK data on our revenue-share routes with International Alliance Partners Air New Zealand Limited and Delta Air Lines Inc.

(2) Underlying CASK is a non-statutory measure which comprises total revenue less underlying (loss)/profit before tax (excluding Skywest) and the following: fuel and revenue relating to non-ticket or nil margin activities $47.5 million (2012: $47.4 million, this revenue is not included in the definition of yield). In 2012, additional amounts relating to hedging ineffectiveness of $10.1 million, net loss on disposal / write down of property, plant and equipment of $18.7 million were excluded.

4. Review and results of operations (continued)

4.3 Review of financial condition (continued)

(a) Statement of profit or loss (continued)

- Increased airport charges, navigation and station operations passenger charges of $41.0 million as a result of port rate changes to reflect additional occupancy and greater services provided in several key ports, offset marginally by a reduction in the number of guests travelling during the 2013 financial year.
- Increased aircraft operating lease expenses of $38.7 million following an expansion of the leased aircraft fleet to meet the demands of route expansion and provision of a seamless and comfortable travel experience for guests.
- Increased contract and other maintenance expenses of $36.0 million largely due to ongoing key investment in maintenance and repair costs of the fleet. This is reflective of a continued focus on safety and a commitment to comply with fleet maintenance obligations as the fleet continues to expand to support the Game Change Program strategies of the Group, coupled with an increase in the average fleet age one year on. Included in this increase is the impact relating to a reassessment of estimates for maintenance provisions during the year ended 30 June 2013, which resulted in a decrease in maintenance expenses of $20.1 million.
- A net ineffective cash flow hedge and non-designated derivatives and foreign exchange gain of $49.1 million was recorded for the financial year ended 30 June 2013 comparing favourably to the net loss of $38.4 million which was recorded in the prior corresponding period. The 2012 financial year loss was largely due to the decrease in oil prices at the end of financial year relative to hedged levels throughout the year. The 2013 financial year benefited from both a return of jet fuel prices exceeding hedged levels and also gains generated from ineffective hedge relationships.

(iii) Segment results

Domestic EBIT[1] was a loss of $44.4 million (including $8.8 million[2] from Skywest), a decline of $137.6 million on the prior comparative period. This performance was impacted by the difficult economic and operating environment which has impacted revenue, includes allocated corporate overheads and the Skywest loss, and makes no adjustment for waived ancillary fees or other earned revenue impacts from the SabreSonic migration. International EBIT[3] was a profit of $7.7 million as a result of the network changes the Group made as part of the Game Change Program and alliance partnership strategies.

(iv) Net loss after tax

Statutory net loss after tax (NLAT) was $98.1 million, a decrease of $120.9 million on the prior corresponding period profit of $22.8 million. The Group's underlying loss before tax[4] (excluding Skywest) was $72.8 million.

Statutory net loss after tax for the Group of $98.1 million is adjusted for income tax benefit of $51.6 million, business transformation expenses of $105.1 million, underlying pre-tax trading loss of Skywest of $9.4 million[5] and hedging ineffectiveness[6] of $37.6 million (gains), resulting in an underlying loss before tax for the Group of $72.8 million for the year ended 30 June 2013.

Business transformation expenses ($105.1 million) include costs relating to the transition to SabreSonic and the acquisition of Skywest in addition to other costs totalling $98.8 million, and accelerated depreciation of assets linked to the strategic repositioning of the business of $6.3 million.

(v) Operating statistics

Key operating statistics indicate the Group's continued stability in yield and unit cost when compared with the prior corresponding period, despite the challenging conditions experienced during the year ended 30 June 2013.

Operating statistics (Group)[7]		2013	2012	Change	% Change
Group yield[8]	cents	**11.08**	11.09	(0.01)	(0.1)
Available seat kilometres (ASKs)	billion	**41.8**	39.8	2.0	5.0
Passengers carried	million	**19.3**	19.4	(0.1)	(0.5)
Revenue Load factor	%	**75.6**	78.1	(2.5)	(3.2)

(1) Domestic EBIT is a non-statutory measure per note 6 to the consolidated financial statements.
(2) Domestic EBIT includes underlying pre-tax loss[9] of Skywest of $9.4 million adjusted for $0.6 million of finance costs.
(3) International EBIT is a non-statutory measure per note 6 to the consolidated financial statements.
(4) Underlying (loss)/profit before tax (PBT)[7] is a non-statutory measure used by Management and VAH's board as a primary measure to assess financial performance of VAH and individual segments. From the 2013 financial year, VAH included all time value movement in hedges in underlying profit leaving hedge ineffectiveness to be excluded from underlying profit. This approach is consistent with the approach applied in the first half of the financial year 2013, but represents a change from the financial year 2012. In the financial year 2012, unrealised time value movement of $24.2 million was included in underlying profit. Should this approach to program management have been applicable in the financial year 2012, then the underlying profit would reduce by $24.2 million.
(5) Skywest generated a pre-tax loss of $10.2 million including finance costs of $0.6 million and has been adjusted for $0.8 million of business transformation expenses.
(6) The ineffective cash flow hedges and non-designated derivatives in the statutory consolidated statement of profit or loss include gains and losses from both time value movements on options and ineffectiveness on hedges. Ineffectiveness on hedges relates to movements in the value of hedges that do not qualify to be deferred in the hedge reserve under Australian accounting standards and are required to be recognised in the profit and loss, while time value movements on options represents the gain or loss on the option premiums that is attributable to the amount of time remaining until the expiration of the option as well as being dependent on market volatility.
(7) This non-IFRS information has not been audited or reviewed by KPMG.
(8) Group yield excludes Skywest.
(9) Underlying (loss)/profit before tax (PBT) is a non-statutory measure used by Management and VAH's board as a primary measure to assess the financial performance of VAH and individual segments and excludes business transformation costs. This non-IFRS information has not been audited or reviewed by KPMG.

4. Review and results of operations (continued)

4.3 Review of financial condition (continued)

(b) Statement of financial position

Statement of financial position summary	2013 $m	2012 $m	Movement $m	Movement %
Current assets	**970.9**	1,032.0	(61.1)	(5.9)
Non-current assets	**3,455.1**	2,963.2	491.9	16.6%
Total assets	**4,426.0**	3,995.2	430.8	10.8%
Current liabilities	**1,793.1**	1,591.6	201.5	12.7%
Non-current liabilities	**1,592.8**	1,473.9	118.9	8.1%
Total liabilities	**3,385.9**	3,065.5	320.4	10.5%
Net assets	**1,040.1**	929.7	110.4	11.9%
Share capital	**794.7**	633.3	161.4	25.5%
Reserves	**100.5**	53.4	47.1	88.2%
Retained profits	**144.9**	243.0	(98.1)	(40.4)%
Equity	**1,040.1**	929.7	110.4	11.9%

(i) Assets

Total assets increased by $430.8 million to $4,426.0 million during the financial year ended 30 June 2013. This was mainly due to the following:

- Property, plant and equipment and intangible assets increased by $464.8 million, a 16% increase to $3,334.8 million.
  - Property, plant and equipment, increased by $236.2 million largely due to fleet expansion, capital expenditure of maintenance obligations, investment in the Group's lounge facilities located in key ports across the network and the roll-out of the leading in-flight entertainment system developed by Lufthansa Systems allowing guests to stream video and audio directly to their own personal electronic devices, Wi-Fi enabled laptops or the Samsung Galaxy Tab 10.1.
  - Intangible assets increased by $228.6 million due to expenditure predominantly comprising SabreSonic implementation costs coupled with the goodwill arising on acquisition of the Skywest Airlines Pte Limited group of entities.
- Derivative financial assets increased by $112.9 million due to the hedged portfolio holding favourable positions against market foreign exchange and jet fuel prices at 30 June 2013.
- Trade and other receivables increased by $48.4 million to $259.2 million from $210.8 million in the prior corresponding period mainly due to timing differences in receipts from credit card transactions at 30 June 2013 in comparison to 30 June 2012.
- Deferred tax assets increased by $21.7 million to $32.6 million from $10.9 million in the prior corresponding period. The primary driver of this was the increase in tax losses carried forward, which increased from $148.5 million to $266.6 million. The deferred tax asset balance is offset by the deferred tax liability which increased from $217.2 million to $287.1 million.
- Cash and cash equivalents decreased by $222.1 million to $580.5 million from $802.6 million in the prior corresponding period despite positive operating cash flows, primarily due to the use of cash as follows:
  - Net cash from operating activities was $60.6 million, after funding business transformation activities of $81.5 million, predominately consisting of SabreSonic implementation costs.
  - Net cash used in investing activities was $496.0 million largely funding capital expenditure of fixed assets as noted above and the acquisition of the Skywest Airlines Pte Limited group of entities.
  - Net cash from financing activities was $196.4 million following debt raising by the Group generated by net proceeds from borrowings (including bank lending and related party loans) of $353.6 million and share issues of $110.7 million offset by repayment of borrowings of $267.9 million.

(ii) Liabilities

Total liabilities increased by $320.4 million to $3,385.9 million for the financial year ended 30 June 2013. This mainly relates to:

- Total interest-bearing liabilities increased by $215.8 million to fund the asset growth of the Group, largely through financing activities, including aircraft financing of $82.4 million (net), bank lending of $99.0 million (net of capitalised borrowing costs) and lending from associates of $9.3 million. In addition the Group acquired finance lease liabilities of $25.1 million following the sale and leaseback of the Virgin Australia hangar to the Brisbane Airport Corporation and aircraft and aeronautic related assets on acquisition of the Skywest Airlines Pte Limited group of entities.
- Trade and other payables increased by $78.7 million, largely due to an increase in trade creditors as the Group aligned its commercial payment terms with other major corporates.

4. Review and results of operations (continued)

4.3 Review of financial condition (continued)

(b) Statement of financial position (continued)

(iii) Equity

Equity increased by $110.4 million to $1,040.1 million for the financial year ended 30 June 2013 primarily due to the issue of ordinary shares, $161.4 million, increase in the reserves balances of $47.1 million offset by the loss after tax of $98.1 million.

Shares issued included issues to Singapore Airlines Limited of $110.7 million, Skywest Airlines Pte Limited of $48.5 million and issues under the Group’s 2011 financial year employee share plans which vested on 1 July 2012 of $2.2 million.

(iv) Net current liability position

The Group’s current liabilities exceed its current assets for the year ended 30 June 2013. The consolidated financial statements are prepared on a going concern basis, which contemplates continued positive cash flows from operations. The Group had a cash and cash equivalents balance at 30 June 2013 of $580.5 million (2012: $802.6 million) and generated positive operating cash flows during the year ended 30 June 2013. The Group had an unrestricted cash balance at 30 June 2013 of $326.5 million (2012: $480.1 million).

(v) Dividends

No dividends were declared and paid by the Company since the end of the previous financial period. No final dividend has been declared or paid for the 2013 financial year.

(c) Capital structure

Capital management is a key focus of the Board of Directors (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.

The Board of Directors monitors the liquidity of the Group including unrestricted cash balances. Future financing requirements including those relating to aircraft purchases are monitored with determination of financing being based on competitively priced financing alternatives available at the time of the financing transaction.

The Group’s mix of interest-bearing liabilities as at 30 June 2012 consisted of aeronautic finance facilities, of which 15.2% were current facilities and 84.8% were non-current facilities. As at 30 June 2013, this mix was extended to include loans from banks, loans from associates and finance lease liabilities, of which 19.8% were current facilities and 80.2% were non-current facilities. In addition, subsequent to year end the Group secured shareholder loan facilities totalling AUD $90 million (refer section 4.4(b)). There were no other significant changes in the Group’s approach to capital management during the year.

(d) Treasury policy

The Group recognises the importance of hedging against volatility in the foreign exchange and commodities market, with particular reference to:

- USD, the denominated currency of a significant portion of the Group’s asset base, being aircraft, and also a significant portion of the Group’s aircraft funding;
- Jet fuel, a key commodity used by the Group; and
- Interest rates.

The Group holds derivative financial instruments to hedge its foreign currency, fuel price, interest rate risk exposures and specific asset purchases denominated in foreign currencies.

4. Review and results of operations (continued)

4.4 Significant changes in the state of affairs

(a) Acquisition of shareholding in Tiger Airways Australia Pty Limited

On 8 July 2013, the Group acquired 60% of the shareholding in Tiger Airways Australia Pty Limited. The purchase consideration of $35.0 million has been paid by the Group. In addition $5.0 million will be payable by Tiger Airways Australia Pty Limited to Tiger Airways Holdings Limited if performance targets are met within a 4.75 year period. After acquisition date, there is joint commitment by the Group and Tiger Airways Holdings Limited to invest up to $62.5 million (pro-rated based on the ownership interest) into the Tiger Airways Australia Pty Limited operation.

(b) Other

Subsequent to the end of the 2013 financial year, the Group has established new subordinated term loan facilities with Air New Zealand Limited (NZX: AIR), Etihad Airways P.J.S.C. and Singapore Airlines Limited (SGX: SIA) as part of a program to further supplement and diversify its funding sources. The facilities are for an amount of AUD $90.0 million in total, with pro-rata contributions from each shareholder based on their economic interest at the end of August 2013. The facilities are for a term of one year and are based on arms-length commercial terms.

4.5 Likely developments and future prospects

Virgin Australia is committed to becoming the airline of choice in all market segments in Australia, while retaining a low cost base. Now the Group has established a strong presence in the leisure and corporate and government market segments, the Group is focused on ensuring a leadership position is maintained in these areas, and the Group's presence in the regional and budget market segments is increased further. Virgin Australia aims to achieve this through continuing delivery on the targets of the Game Change Program Strategy, which revolves around driving new growth opportunities for the business, while retaining a cost-efficient, flexible business model.

The 2014 financial year represents the fourth year of the Group's five-year Game Change Program Strategy in which the Group plans to consolidate its market positioning in order to drive future earnings growth.

Over the next two years, the Group is focused on:

- Ensuring sustainable cost advantage is retained as the Group grows, by continuing a business efficiency project aimed at delivering productivity gains of around $400.0 million by the end of the 2015 financial year;
- Creating a major broad-based loyalty program through enhancing the Velocity frequent flyer program. The Group is focused on expanding the program's value proposition and continuing to simplify the Velocity frequent flyer business, optimising its structure for ongoing growth. The Group is targeting a membership of 5 million by the 2015 financial year;
- Improving the Group's access to global markets in order to drive further revenue growth. The Group estimates this work will result in an additional $150.0 million per annum in interline and codeshare revenue to be captured by the end of the 2015 financial year;
- Further enhancing the customer experience through in-flight and on-the-ground innovation. The Group will continue to introduce new product and service initiatives over the next two years;
- Continuing to develop the Group's people and maintaining service excellence – the Group's key differentiator; and
- Continuing to review the capital structure of the Group in line with growth strategy.

Key challenges for the Group include the ongoing difficult economic environment, high fuel prices, strong competition in the airline industry and consolidating recent business acquisitions.

5. Remuneration report – audited

Dear Shareholder

I am pleased to present the Group's remuneration report for the 2013 financial year.

The Group made significant progress on the execution of the Game Change Program Strategy during the 2013 financial year, completing a major restructuring and transformation program and enhancing Virgin Australia's brand and customer proposition.

The Group has succeeded in many aspects of the corporate scorecard, including customer strategy, safety goals, the transition to a global ticketed environment and the completion of the strategic acquisitions of 100 per cent of Skywest Airlines Pte Ltd (Skywest)[1] and 60 per cent of Tiger Airways Australia Pty Limited (Tigerair Australia)[2]. However, Virgin Australia's overall financial performance for the 2013 financial year was impacted by the significant one-off costs of the restructuring and transformation program, difficult economic and operating environment, and the carbon tax.

In keeping with the Group's philosophy and guiding principles of 'pay for performance', the Board has reviewed the overall performance of the Group in determining the approach to incentives and overall remuneration for the CEO and senior executives. The Board has exercised its discretion to reduce the corporate scorecard result and therefore the short-term incentives for the CEO and senior executives. It has also decided to defer more of the short-term incentive into shares and reduce the amount payable as cash. The Group has awarded 2013 financial year contractual bonuses to the CEO and CFO which were based on completing the strategic transactions involving Skywest and Tigerair Australia.

It is the Board's view that it is not appropriate to undertake an annual review of the fixed remuneration of the CEO and senior executives as we move into the 2014 financial year. Therefore, the level of remuneration agreed in September 2012 will remain in place.

The Board views this outcome as a fair approach for the 2013 financial year which balances the Group's financial performance with the significant contributions by the CEO and senior executives to the continued repositioning of the airline through the Game Change Program Strategy.

Further work will be completed on the Group's reward strategy during the 2014 financial year to continue strengthening the link between performance, values and remuneration throughout the Group. Our focus is to ensure that we have the appropriate mix of remuneration to attract, develop and retain the best people in the Group, who strive passionately to create an airline that delivers unrivalled safety outcomes, exceptional customer service and shareholder value.

We are pleased to be providing this important information to shareholders and welcome your feedback. Thank you for taking the time to read this report.

Sam Mostyn
Chair, Remuneration Committee

The report is structured as follows:

5.1 Key management personnel
5.2 Remuneration governance
5.3 Remuneration philosophy and policy
5.4 2013 remuneration
5.5 Remuneration mix
5.6 Company performance outcomes
5.7 Non-executive directors' fees
5.8 Remuneration consultant
5.9 Remuneration disclosures for the year ended 30 June 2013
5.10 Service agreements
5.11 Additional information

(1) Skywest Airlines Pte Ltd (formerly known as Skywest Airlines Ltd). This acquisition was completed on 19 April 2013.
(2) This acquisition was completed on 8 July 2013.

5. Remuneration report – audited (continued)

5.1 Key management personnel

This report covers the key management personnel (KMP) of the Group.

KMP are those people with authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

For the Group, the KMP are defined to be:

- Chief Executive Officer;
- Senior executives reporting directly to the CEO; and
- Non-executive directors.

For the year ended 30 June 2013, the CEO and senior executives were:

- Chief Executive Officer – Mr J Borghetti
- Chief Financial Officer – Mr S Narayan
- Chief Operating Officer – Mr S Donohue
- Chief Customer Officer – Mr M Hassell
- Chief Commercial Officer – Ms J Crompton (commenced 1 August 2012)
- Chief Executive Officer, Velocity – Mr N Thompson (commenced 13 August 2012)
- Group Executive, Virgin Australia Regional Airlines – Ms M McArthur
- Group Executive, Corporate Communications – Ms D Keighery
- Group Executive, Government Relations – Ms J McKeon
- Group Executive, People, Culture and Sustainability – Ms G Chin Moody (commenced 1 March 2013)
- Group Executive, People – Mr R Tanner (ceased as KMP on 28 February 2013)

5.2 Remuneration governance

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policies, structure and performance of the CEO, senior executives and non-executive directors.

Executive remuneration is set with reference to a comparator group of organisations. This peer group comprises organisations of a similar size to the Group in terms of market capitalisation and revenue. The Group aims to set executive remuneration competitively against the peer group, considering the size and nature of an individual's role as well as performance in the role. The mix of remuneration, between fixed and variable components, takes into account that the CEO and senior executives are expected to drive both the short-term objectives for the Group as well as create long-term value for the shareholder. Remuneration structure and quantum are assessed annually to align Group strategy and business imperatives. This annual assessment by the Remuneration Committee is carried out through a process that links individual and Group key performance indicators (KPI) to the overall performance of the CEO and senior executives.

The Board's Remuneration Committee, consisting of four non-executive directors, is responsible for determining and agreeing with the Board a framework and broad policy for remuneration. It advises the Board on remuneration policies and practices generally, and makes specific recommendations on remuneration packages, incentives and other terms of employment for non-executive and executive directors, and the CEO and senior executives.

5.3 Remuneration philosophy and policy

The continued growth and development of the Group demands a strong link between remuneration and performance. Further, the demands of performance, both individual and business, continue to evolve in line with the need for enhanced medium to long-term shareholder returns.

The aviation industry is both volatile and unpredictable due to the numerous external factors which can affect the operation and subsequent profit performance of the Group at any time. For this reason, the Group's philosophy must align with the overall performance of the Group from year to year and ensure that the Group attracts and retains the best executives in the business – highly skilled, motivated and engaged executives with the desire and capability to ensure continued success of the Group's brand positioning whilst growing shareholder return over the medium and long-term. This philosophy is guided by the following five principles:

Pay for Performance – Remuneration outcomes aim to deliver appropriate and fair rewards to the CEO and senior executives consistent with both the corporate scorecard and individual performance.

The Group utilises a balanced scorecard approach to establish and measure performance objectives and determine incentive outcomes for the CEO and senior executives. The scorecard sets both financial and non-financial targets for the CEO and senior executives that reflect the current Group strategy and future direction. The inclusion by the Board of non-financial measures in the corporate scorecard aims to ensure that the Group as a whole and all the executives are focused both collectively and individually on additional critical business outcomes which, taken together with financial performance, are key measures of the overall performance and health of the Group.

Although this approach recognises that financial outcomes are not the only indicator of company performance, the Group places significant weighting on the financial result and that any financial achievement must be aligned with the Group's values and business strategy.

5. Remuneration report – audited (continued)

5.3 Remuneration philosophy and policy (continued)

Externally Competitive – The Board acknowledges that the delivery of the Group's strategy requires the recruitment and retention of talented executives at a competitive market rate, based on a comparator group of organisations.

Alignment with Shareholders – The delivery of shareholder return over the medium and long-term is paramount to the success of the Group and the remuneration policy aims to motivate the CEO and senior executives to deliver material growth over a multi-year period.

Efficiency – The Board manages the remuneration expenditure for the CEO and senior executives through a mix of fixed remuneration, short-term incentive (STI) and long-term incentive (LTI) that represents the best investment of funds to achieve continued growth and shareholder return.

Board Discretion – Through advice from the Remuneration Committee, the Board has the discretion to reward executives, taking into account the highly volatile market within which the Group operates. Industry and global factors outside of the control of the CEO and senior executives (for example, environmental incidents and fuel prices) can have a significant impact on business outcomes. Additionally, there are strategic milestones that are key to the objective of transforming the Group and ultimately create value for the shareholder. The Board retains the discretion to take these factors into account when considering remuneration against the absolute performance outcomes.

5.4 2013 remuneration

The Group's delivery of the remuneration philosophy for the 2013 financial year is covered in this section. The 2013 financial year has been a pivotal year for the Group, with the completion of a major restructuring and transformation program and the achievement of key Game Change Program targets. Notable achievements include the critical transition to a global ticketed environment and single airline designator, and the acquisition of 100% of Skywest(1) and 60% of Tigerair Australia(2), enabling repositioning of the business across all key aviation market segments and creating a new competitive landscape.

Notwithstanding the difficult economic and operating environment, the Group continued to deliver on the key pillars of our strategy. The Group made significant enhancements to the customer experience, increased membership and engagement of the Velocity frequent flyer program, and improved our access to global markets with the transition to a global ticketed environment and the expansion of our alliance partnerships. Importantly, we continued to develop our people to deliver outstanding customer service, taking the lead in Roy Morgan's Domestic Airline Business Satisfaction Awards for the 2013 financial year, winning the Roy Morgan Domestic Airline of the Year for 2012 and the Skytrax Award for Best Airline Staff Service in the Australia/Pacific region for the third consecutive year.

However, our overall financial performance was impacted by the difficult economic and competitive environment, the significant one-off pre-tax restructuring and transformation costs, and carbon tax, delivering a profit outcome below expectations.

In keeping with the Group's philosophy and guiding principles, the Board has reviewed the overall performance of the Group with regard to determining the approach to incentives and overall remuneration for the CEO and senior executives. The remuneration mix will remain the same and there will be no increase to the CEO or senior executives fixed remuneration in the 2014 financial year. Furthermore, the Board has exercised its discretion to reduce the amount of short-term incentive for the CEO and senior executives. It has also decided to defer more of the STI into shares and reduce the amount of the STI payable as cash.

This outcome is seen by the Board as a fair approach for the 2013 financial year which balances the Group's financial performance with the significant contributions of the CEO and senior executives to the continued repositioning of the airline through the Game Change Program Strategy.

5.5 Remuneration mix

(a) Remuneration mix for CEO and senior executives

The remuneration mix for the Group's CEO and senior executives is set by taking into account the requirement for the appropriate balance between fixed and at risk remuneration (STI and LTI). Due to the volatile nature of the airline industry the Group regards this as an important factor. Executive remuneration is set so that fixed remuneration provides an adequate base level of reward and the at risk variable component provides excellent incentive to drive the performance of the Group in the short-term and to maximise the shareholder return over the medium to long-term.

(1) This acquisition was completed on 19 April 2013.

(2) This acquisition was completed on 8 July 2013.

5. Remuneration report – audited (continued)

5.5 Remuneration mix (continued)

(a) Remuneration mix for CEO and senior executives (continued)

(i) CEO remuneration mix

The relevant ratio of fixed remuneration to variable remuneration for the CEO is shown below.

Base Pay
35%

+

STI
38%

→ **50% Corporate Scorecard**
Financial – Underlying PBT and budgeted cost and Group Yield
Operational – On-time performance (OTP)
Employee Satisfaction – Employee engagement
Guest Satisfaction – Likelihood to recommend
Safety – No Category 1 or 2 incidents and decrease lost time injury

→ **50% Individual Performance Measures**
Completion of the 3 Year Game Change Program
Achievement of specific financial and market share targets

+

LTI
27%

→ Achievement of medium-term and long-term shareholder return over a three year period

(ii) CEO remuneration for the 2013 financial year

In September 2012, due to the continued improvement of the positioning of the Group combined with the realisation of a $22.8 million profit outcome in the 2012 financial year, the Board deemed it appropriate to review the CEO's fixed remuneration. After consideration of advice from Mercer Consulting (Australia) (Mercer Consulting) including an external market review against a comparable market group, the CEO's total remuneration increased by 8.23%, comprising an increase of $350,000 in fixed remuneration and no change in variable remuneration from the 2012 financial year. The Board felt that the successful implementation of the Game Change Program Strategy in 2012, ahead of schedule, combined with the results of the external market review justified this increase. The Board has the discretion to increase the CEO STI by a maximum of 40% based on performance being judged as well above expectation. In the 2013 financial year, the CEO was set additional targets to achieve transformational strategies, including the acquisition of 100% of Skywest[(1)] and 60% of Tigerair Australia[(2)].

(iii) Senior executive remuneration mix

The relevant average ratio of fixed remuneration to variable remuneration for senior executives is shown below:

Base Pay
42%

+

STI
44%

→ **50% Corporate Scorecard**
Financial – Underlying PBT and budgeted cost and Group Yield
Operational – OTP
Employee Satisfaction – Employee engagement
Guest Satisfaction – Likelihood to Recommend
Safety – No Category 1 or 2 Incidents and decrease lost-time injury

→ **50% Individual Performance Measures**
Assessment against Board set Key Performance Indicators which align to the achievement of the Scorecard

+

LTI
14%

→ Achievement of medium-term and long-term shareholder return over a three year period

(1) This acquisition was completed on 19 April 2013.
(2) This acquisition was completed on 8 July 2013.

5. Remuneration report – audited (continued)

5.5 Remuneration mix (continued)

(a) Remuneration mix for CEO and senior executives (continued)

(iii) Senior executive remuneration mix (continued)

The Board has the discretion to increase the senior executives' STI by a maximum of 50% based on performance being judged as well above expectation. For the 2013 financial year, the senior executives were set stretch targets in relation to Underlying PBT and cost reduction initiatives.

(iv) CFO remuneration for the 2013 financial year

The Board has recognised that during the 2013 financial year, the CFO also had considerable involvement in achieving the additional targets around transformational acquisition activity. The Board has the discretion to apply a one-off increase to the CFO STI by a maximum amount of 20% based on achievement of these strategic priorities.

(b) Fixed remuneration

Fixed remuneration is the base level of reward and includes cash, compulsory superannuation and any salary sacrifice items (including fringe benefits tax).

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

- The senior executive's skills and experience;
- The requirements of their role;
- Remuneration levels of companies in the Group's comparator group;
- Relevant economic conditions; and
- Expected shareholder return due to the contribution of the senior executives.

(c) Short-term incentives

Short-term incentive (STI) is an annual incentive paid for meeting annual targets aimed at delivering our longer-term strategic plan. Virgin Australia regards the CEO and senior executives as having the ability to directly impact the performance of the Group and therefore participate in the STI plan. The purpose of the STI is to reward the Group's senior executives for performing above the base level requirements that are expected and compensated through their fixed remuneration. The plan is directly linked to the Group's overall performance and takes into consideration both individual and company measures of performance. The Board has the discretion to increase or decrease the STI, based on both the overall performance of the Group and the volatile nature of the aviation industry.

(i) Delivery of STI

A key objective of the remuneration policy is to ensure that key and high performing executives are retained and engaged over a long-term period. The STI for the senior executives is delivered as 65% cash with the remaining 35% delivered as deferred shares in the Group's Key Employee Performance Plan (KEPP) over a three year period. The KEPP deferred allocation of STI would defer in a proportional split of 40%, 40% and 20% respectively for the three years based on the ongoing employment of the senior executive.

The delivery of STI to the CEO is comprised of 71% cash and 29% deferred shares. The CEO's deferred portion of STI allocation defers for 12 months. The Board intends to meet any obligation for STI share payment to the CEO by purchasing on market in accordance with general market practice.

Given that the KEPP is to serve as a retention mechanism, vesting of options is not subject to ongoing performance. Vesting will occur provided that the senior executive remains an active employee of the Group (i.e. not serving a period of notice) on the vesting date. The vesting for the KEPP allocation is 1 July for each year.

For the 2013 financial year, the Board set both company and individual measures for the CEO, which were subsequently cascaded by the CEO to the senior executives. The following company performance objectives were consistent across the CEO and senior executives under the STI plan.

5. Remuneration report – audited (continued)

5.5 Remuneration mix (continued)

(c) Short-term incentives (continued)

(i) Delivery of STI (continued)

Category		Target	Weighting
Financial (40%)	**Financial** Maximise shareholder returns	Achieve Underlying PBT	20%
		Achieve Budgeted Cost	10%
		Achieve Budgeted Group Yield	10%
Non-financial (60%)	**Operational** Improve on time performance	Improve OTP relative to market	15%
	Employee Satisfaction Improve engagement of staff	Improve employee engagement score (based on Hay's employee engagement measure)	10%
	Guest Satisfaction Improve customer satisfaction	Improve guest satisfaction score	15%
	Safety and Security No compromise in providing a safe and secure environment for staff and for guests	No category 1 or category 2 incidents	10%
		Decrease % lost-time Injury per million hours worked	10%

The individual measures for the CEO were set by the Board and are referenced in section 5.5(a). The senior executive individual measures were set by the CEO based on the Group strategy and relative to their strategic priorities. At the end of the financial year, the Board assesses the performance of the Group, the relevant divisions, and the CEO against the objectives set at the beginning of the financial year.

(d) Long-term incentives

Long-term incentives (LTI) are used to balance short-term performance objectives with the creation of long-term shareholder value by focussing on corporate performance over a multi-year period.

While short-term incentives reward performance for the most recent financial year, the Board considers it essential that the CEO and senior management (including senior executives and senior managers) have reward incentives linked to the longer-term strategy of the Group. This management group has responsibility for the achievement of sustained performance, strategy and longer-term Group performance to create value for shareholders over the medium and long-term.

The CEO and senior management were issued zero exercise price options under the Senior Executive Option Plan (SEOP 17, 18 and 19) in the 2013 financial year.

The performance hurdle for the options granted to the CEO, senior executives and senior management under SEOP 17 and 19 (50%) is growth in total shareholder return (TSR) relative to the S&P/ASX 200 Index (excluding financial services and resource companies) over three years. TSR was chosen as a performance hurdle as it is an indicator of shareholder wealth creation. TSR includes share price growth, dividends and other capital adjustments.

The CEO has additional performance hurdles relating to SEOP 19 which are subject to corporate performance measures determined by the Board. The Board has concluded that certain strategic and operational initiatives, if delivered, will provide a long-term sustainable operating platform for the Group and will ultimately result in strong alignment with shareholder value creation. Such initiatives are generally implemented over a period in excess of one year and therefore results are achieved over time. These initiatives are fundamental to the success of the Group.

The performance measures include specific targets, each of which are equally weighted, in relation to the growth of corporate, government and alliance partners' related business, performance of the Velocity frequent flyer program, Group safety outcomes and productivity enhancements.

The performance hurdle under SEOP 18 is continuous employment within the Virgin Australia Group of companies in a Group Executive role or higher throughout the period 1 July 2012 to 30 June 2015.

5. Remuneration report – audited (continued)

5.5 Remuneration mix (continued)

(d) Long-term incentives (continued)

(i) Number of issued options and performance rights

At 30 June 2013, zero exercise price options and performance rights had been issued to participants as follows:

Option plan	Number issued
SEOP 12	3,753,000
CEO SEOP 13	4,115,903
SEOP 14	140,629
SEOP 15	13,386,718
SEOP 16	4,941,481
SEOP 17	7,027,044
SEOP 18	652,955
SEOP 19	2,796,420
Performance rights	
Key Employee Performance Plan 2012 (KEPP 12)	5,409,856

The number of issued zero exercise price options and performance rights are net of adjustments due to forfeiture as a result of termination of employment. The number of zero exercise price options vested during the financial year and exercisable as at 30 June 2013 was SEOP 12: 8,353,452 and SEOP 14: 272,985. 6,585,444 performance rights vested and exercised during the financial year ended 30 June 2013.

(ii) LTI plans granted during the 2013 financial year and previous plans

Grants under the LTI plans granted during the 2013 financial year and previous LTI plans were made in the form of zero exercise price options. Each zero exercise price option provides a right to acquire one fully paid ordinary share in the Company provided the specific performance measures are met.

Aside from CEO Co-Investment Scheme (CEOCIS), SEOP 18, 50% of SEOP 16 and 50% of SEOP 19, all grants were made utilising total shareholder return (TSR) as the measure for growth over the relevant performance periods. Growth in TSR is relative to the S&P/ASX 200 Index (excluding financial services and resource companies). The TSR performance hurdles are:

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%

Base TSR and TSR on the vesting dates will be determined utilising a 30 day volume weighted average price (VWAP) for VAH shares. Any additional testing dates are specified in the tables below.

The zero exercise price options offered under SEOP can only be exercised if the performance hurdle/s are achieved at the conclusion of the performance period or at the conclusion of any re-test period, when applicable. Exercised entitlements will be satisfied by either an allotment of new securities or by an on-market purchase of existing securities, which is at the Board's discretion. With the exception of SEOP 16 and 19 any vested options are exercisable during the period commencing on the date of each relevant year's annual results and the period concluding 30 June on the following year. All participants are prohibited from hedging unvested zero exercise price options.

Upon termination of a participant's employment, all zero exercise priced options issued to that participant will lapse. In certain circumstances and at the discretion of the Board, a participant may retain their options after termination of employment on the same terms under which they were originally issued. Upon a change of control of the Group, the Board may resolve that all options will immediately become exercisable.

5. Remuneration report – audited (continued)

5.5 Remuneration mix (continued)

(d) Long-term incentives (continued)

(ii) LTI plans granted during the 2013 financial year and previous plans (continued)

Further detailed information particular to each plan is contained in the following tables:

LTI plans granted during the 2013 financial year

Plan Name	Grant Date	Eligibility	Performance Period	Performance Hurdle	Vesting Date
SEOP 17	1 May 2013	Senior executives(1)	1 July 2012 – 30 June 2015	TSR(2)	30 June 2015
SEOP 18	1 May 2013	CFO	1 July 2011 – 30 June 2012	Ongoing employment(3)	30 June 2015
SEOP 19	1 May 2013	CEO	1 July 2012 – 30 June 2015	TSR(4)	30 June 2015(5)

Previous LTI plans

Plan Name	Grant Date	Eligibility	Performance Period	Performance Hurdle	Vesting Date
CEOCIS(6)	8 May 2010	CEO	8 May 2010 – 30 June 2013	VWAP(7)	30 June 2013
SEOP 12	10 March 2011	Senior executives(1)	1 July 2010 – 30 June 2013	TSR(2)	30 June 2013(8)
CEO SEOP 13	24 November 2010	CEO	8 May 2010 – 7 May 2013	TSR(2)	7 May 2013(9)
SEOP 14	11 October 2011	CFO	11 April 2011 – 30 June 2013	TSR(2)	30 June 2013(8)
SEOP 15	29 February 2012	Senior executives(1)	1 July 2011 – 30 June 2014	TSR(2)	30 June 2014
SEOP 16	29 February 2012	CEO	1 July 2011 – 30 June 2014	TSR(4)	30 June 2014(10)

(1) Excludes the CEO and non-executive directors and includes senior management.

(2) TSR is measurable in accordance with the description provided as detailed in section 5.5(d).

(3) TSR was not utilised as a performance hurdle for SEOP 18 which was granted on the basis of CFO 2012 financial year performance. The CFO must remain employed within the Virgin Australia Group of companies in a Group Executive role or higher throughout the period 1 July 2012 to 30 June 2015.

(4) TSR as detailed above for 50% of SEOP 19 and SEOP 16. The remaining half (50%) of the options are exercisable if corporate performance measures determined by the Board are met. The performance measures include specific targets in relation to the growth of corporate, government and alliance partners' related business, performance of the Velocity frequent flyer program, Group safety outcomes and productivity enhancements (SEOP 19 only).

(5) Of the options which vest, 60% will vest on 30 June 2015 and 40% will vest on 30 June 2016. Options that vest will be exercisable no later than 12 months after vesting, after which they will lapse.

(6) CEO Co-Investment Scheme. The CEO was granted a one-off issue of $400,000 worth of zero exercise price performance rights on commencement under the CEO Co-Investment Scheme in exchange for purchasing $200,000 of the Company shares. Under the terms of the scheme, the CEO was restricted from trading the purchased shares for two years from 8 May 2010. The number of performance rights issued was determined having regard to the 20 day weighted average share price of the Company's shares up to and including the date of announcement on 2 March 2010 of the CEO's appointment. The exercise period is 30 June 2013 to 30 June 2014, however, the performance rights expired immediately as they did not vest on the vesting date.

(7) The performance hurdle would have been met where the Company's 20 day weighted average share price at the end of the performance period was 25% higher than the 20 day weighted average share price at 8 May 2010.

(8) To the extent that the TSR performance hurdle is not met on the vesting date, unvested options will be re-tested on 31 December 2013. Any vested options will lapse if they are not exercised within twelve months of the vesting date.

(9) To the extent that the TSR performance hurdle is not met on the vesting date, unvested options will be re-tested on 31 December 2013. Any vested options will lapse if they are not exercised on or before 30 June 2014.

(10) Of the options which vest, 60% will vest on 30 June 2014 and 40% will vest on 30 June 2015. Options that vest will be exercisable no later than 12 months after vesting, after which they will lapse.

5. Remuneration report – audited (continued)

5.6 Company performance outcomes

(a) Company performance

The table below provides summary information on the Group's earnings and shareholder wealth for the five years to 30 June 2013:

	2013	2012	2011	2010	2009
Net (loss)/profit after tax ($m)	**(98.1)**	22.8	(67.8)	21.3	(160.0)
Share price ($)	**0.43**	0.39	0.28	0.30	0.27
Change in share price ($)	**0.04**	0.11	(0.02)	(0.03)	(0.13)
Dividends paid ($m)	**–**	–	–	–	–
TSR	**10.3%**	39.3%	(6.7)%	(11.1)%	(32.5)%
EPS	**(4.1) cents**	1.0 cent	(3.1) cents	1.0 cent	(11.6) cents

(b) STI outcomes

As referenced in sections 5.5(a) and 5.5(c), the corporate scorecard is the principal method for testing the STI outcome for the CEO and the senior executives. The following table reflects the corporate scorecard results for the 2013 financial year.

Scorecard Measure	Scorecard Weighting	2013 Scorecard Outcome
Financial	40.0%	10.0%
Operational	15.0%	7.5%
Employee Satisfaction	10.0%	0.0%
Guest Satisfaction	15.0%	15.0%
Safety	20.0%	20.0%
Total	100.0%	52.5%

In light of the financial result, the Board decided to exercise its discretion to reduce the scorecard result. The Board has agreed to reduce the scorecard result by approximately 50% and in doing so decrease the amount of STI that would have been awarded. This change reflects the Board's view of the importance of Group performance to CEO and senior executive STI while also balancing the significant progress made by the CEO and senior executives in executing the Game Change Program Strategy.

Furthermore, based on Group performance, the Board decided to reduce the cash amount of STI to 50% for the senior executives and increase the amount deferred into equity.

The Board also agreed to decrease the amount of cash STI for the CEO to 50% and increase the deferred portion for the STI based on the corporate scorecard. The deferred portion of STI for the CEO is 12 months.

The Board also awarded 2013 financial year contractual bonuses to the CEO and CFO which were set based on strategic transformation priorities for the year, including the acquisition of 100% of Skywest(1) and the 60% acquisition of Tigerair Australia(2). These significant achievements are a fundamental platform for the growth of the Group.

(1) This acquisition was completed on 19 April 2013.
(2) This acquisition was completed on 8 July 2013.

5. Remuneration report – audited (continued)

5.6 Company performance outcomes (continued)

(c) LTI outcomes

During the year ended 30 June 2013, four SEOP grants were tested where KMP held options. These grants were tested under the Group's LTI plan are shown in the following table:

Grant	Grant date	Performance hurdle	Test date	% Vested
SEOP 12	10 March 2011	TSR(1)	30 June 2013(2)	69%
CEO SEOP 13	24 November 2010	TSR(1)	7 May 2013(3)	Nil
SEOP 14	11 October 2011	TSR(1)	30 June 2013(2)	66%
CEOCIS(4)	8 May 2010	VWAP(5)	30 June 2013	Nil

(1) TSR is as follows:

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%

Base TSR and TSR on the vesting date, will be determined using the 30 day VWAP for VAH shares.

(2) To the extent that the TSR performance hurdle is not met on the vesting date, unvested options will be re-tested on 31 December 2013. Any vested options will lapse if they are not exercised within twelve months of the vesting date.

(3) To the extent that the TSR performance hurdle is not met on the vesting date, unvested options will be re-tested on 31 December 2013. Any vested options will lapse if they are not exercised on or before 30 June 2014.

(4) CEO Co-Investment Scheme.

(5) The performance hurdle would have been met where the Company's 20 day weighted average share price at the end of the performance period was 25% higher than the 20 day weighted average share price at 8 May 2010.

5.7 Non-executive directors' fees

(a) Virgin Australia Holdings Limited

Non-executive directors receive a base fee. Where non-executive directors participate in a Board committee, an additional fee is payable in recognition of the higher workloads and extra responsibilities. The committee chair received a premium over committee member fees reflecting the relative role responsibilities and expected time commitment. The Chairman of the Board receives no extra remuneration for participating in or chairing committees.

Non-executive directors do not receive bonuses or any other incentive payments and are not eligible to participate in any of the executive or employee share option plans established by the Group.

The maximum aggregate remuneration payable to non-executive directors is $1,200,000 per annum, as approved by shareholders at the Group's Annual General Meeting in November 2011.

Non-executive directors' fees are determined by the Board based on advice from external advisors, which includes market comparison of remuneration paid to non-executive directors in a comparator group of similar sized companies. Director fees were last increased in March 2010.

The fees paid to non-executive directors are set out in the table below and are annual fees unless otherwise stated:

	Board	Audit and Risk Management Committee	Remuneration Committee	Nomination Committee	Safety and Operational Risk ReviewCommittee
Chair	$175,000	$25,000	$15,000	Nil	$25,000
Members	$85,000	$10,000	$10,000	Nil	$10,000

Note: Fees are inclusive of superannuation.

5. Remuneration report – audited (continued)

5.7 Non-executive directors' fees (continued)

(b) Virgin Australia International Holdings Pty Ltd

Members of the Board of Directors of Virgin Australia International Holdings Pty Ltd (VAIH), a controlled entity of the Company, receive an annual fee of $75,000, while the Chairman receives an annual fee of $140,000. In their capacity as directors of this Board, Mr N Chatfield and Mr J Borghetti have elected to receive 50% of the annual director fee, $37,500. Mr J Borghetti has elected to donate his entire annual director fee to charity.

(c) Travel entitlements

All non-executive directors and their eligible beneficiaries receive travel entitlements. These include two return international business class flights and four return domestic business class flights, per financial year, per person, for travel on flights operated by the Group. These flights are not cumulative and will lapse if they are not used during the financial year in which the entitlement exists. The entitlement will remain in place for the remainder of the financial year in which the participant ceases to be a non-executive director of the Group and will then cease. 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.

5.8 Remuneration consultant

Mercer Consulting was engaged by the Remuneration Committee during the 2013 financial year for a fee of $40,000 to:

- Establish peer groups for the purposes of benchmarking the CEO's remuneration arrangements;
- Provide remuneration data from these peer groups;
- Review proposed changes to the CEO's remuneration and incentive arrangements (including benchmarking) for the 2013 financial year; and
- Provide assistance with queries from external stakeholders.

This information was used by the Remuneration Committee in finalising the CEO remuneration arrangements for the 2013 financial year.

No further benchmarking was conducted for the senior executives as the Board was comfortable with the benchmarking completed during the 2012 financial year.

Consistent with good governance, the following arrangements were made to ensure Mercer Consulting's advice was free from undue influence:

- Mercer Consulting was engaged by, and reported to, the Remuneration Committee Chair;
- The agreement for the provision of services was executed by the Remuneration Committee Chair on behalf of the Board;
- The reports containing remuneration advice or market data were provided by Mercer Consulting directly to the Remuneration Committee Chair; and
- Mercer Consulting have declared that they have not been influenced by KMP in carrying out their duties for the Remuneration Committee.

As a consequence, the Board is satisfied that advice and market data provided by Mercer Consulting was provided free of undue influence from KMP.

Mercer Consulting was also engaged during the 2013 financial year for a fee of $10,000 to:

- Provide an assessment of the 2012 financial year remuneration report against statutory requirements and ASIC recommendations.

5. Remuneration report – audited (continued)

5.9 Remuneration disclosures for the year ended 30 June 2013

Details of the remuneration of the Group's KMP (as defined in Australian Accounting Standard AASB 124 *Related Party Disclosures*) are set out in this section.

		Short-term benefits									
						Equity-settled share-based payments				Total (excluding unvested LTI equity-settled share-based payments)	Equity-settled share-based payments
		Cash salary and fees[1]	Cash settled STI	Other	Non-monetary[2]	STI	Other long-term benefits	Termination benefits	Superannuation benefits		Unvested LTI
	Year	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Current Non-Executive Directors											
Mr N Chatfield[3]	2013	195	–	–	16	–	–	–	18	229	–
	2012	169	–	–	24	–	–	–	15	208	–
Ms S Mostyn	2013	101	–	–	17	–	–	–	9	127	–
	2012	101	–	–	8	–	–	–	9	118	–
Mr R Thomas	2013	110	–	–	8	–	–	–	10	128	–
	2012	110	–	–	1	–	–	–	10	121	–
Mr M Vaile AO	2013	110	–	–	–	–	–	–	10	120	–
	2012	110	–	–	–	–	–	–	10	120	–
Mr D Baxby	2013	87	–	–	12	–	–	–	8	107	–
	2012	76	–	–	3	–	–	–	7	86	–
Mr J Bayliss	2013	78	–	–	–	–	–	–	7	85	–
	2012	78	–	–	–	–	–	–	7	85	–
Alternate Directors											
Mr K Roberts	2013	–	–	–	–	–	–	–	–	–	–
(alternate for Mr D Baxby and appointed alternative for Mr J Bayliss 17 May 2012)	2012	11	–	–	3	–	–	–	1	15	–
Mr S Murphy	2013	–	–	–	–	–	–	–	–	–	–
(alternate for Mr D Baxby and ceased 17 May 2012)	2012	–	–	–	–	–	–	–	–	–	–
Executive Director											
Mr J Borghetti[4]	2013	1,649	794	–	32	147	11	–	25	2,658	993
	2012	1,293	1,156	–	2	203	10	–	40	2,704	1,368
Current Executives											
Mr S Narayan	2013	779	285	–	18	163	5	–	25	1,275	212
	2012	742	595	–	57	123	3	–	25	1,545	168
Mr S Donohue	2013	698	172	–	214	68	6	–	25	1,183	122
	2012	509	460	–	291	95	3	–	25	1,383	163
Mr M Hassell	2013	425	99	4	8	80	2	–	25	643	34
(appointed 23 January 2012)	2012	158	146	–	–	15	1	–	11	331	27
Ms J Crompton	2013	424	86	–	33	31	2	–	23	599	6
(appointed 1 August 2012)	2012	–	–	–	–	–	–	–	–	–	–

5. Remuneration report – audited (continued)

5.9 Remuneration disclosures for the year ended 30 June 2013 (continued)

		Short-term benefits									
						Equity-settled share-based payments				Total (excluding unvested LTI equity-settled share-based payments)	Equity-settled share-based payments
		Cash salary and fees[1]	Cash settled STI	Other	Non-monetary[2]	STI	Other long-term benefits	Termination benefits	Superannuation benefits		Unvested LTI
	Year	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Current Executives (continued)											
Mr N Thompson	**2013**	**459**	**106**	**–**	**26**	**38**	**1**	**–**	**21**	**651**	**9**
(appointed 13 August 2012)	2012	–	–	–	–	–	–	–	–	–	–
Ms M McArthur	**2013**	**496**	**122**	**4**	**56**	**122**	**8**	**–**	**25**	**833**	**98**
	2012	459	376	–	111	78	7	–	25	1,056	149
Ms D Keighery	**2013**	**384**	**92**	**–**	**74**	**81**	**3**	**–**	**25**	**659**	**66**
	2012	354	230	–	72	48	3	–	25	732	100
Ms J McKeon	**2013**	**413**	**116**	**–**	**40**	**99**	**3**	**–**	**25**	**696**	**71**
	2012	396	272	–	50	56	2	–	25	801	99
Ms G Chin Moody	**2013**	**138**	**42**	**–**	**1**	**8**	**–**	**–**	**8**	**197**	**2**
(appointed 1 March 2013)	2012	–	–	–	–	–	–	–	–	–	–
Mr R Tanner	**2013**	**289**	**–**	**–**	**43**	**–**	**3**	**–**	**17**	**352**	**53**
(ceased as KMP 28 February 2013)	2012	418	296	–	58	61	7	–	25	865	131
Former Executives											
Mr M Daley	**2013**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
(resigned 29 June 2012)	2012	388	360	–	44	–	12	385	52	1,241	117
Ms E Savage	**2013**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
(resigned 29 June 2012)	2012	556	480	–	4	–	4	592	25	1,661	169
Total	**2013**	**6,835**	**1,914**	**8**	**598**	**837**	**44**	**–**	**306**	**10,542**	**1,666**
	2012	5,928	4,371	–	728	679	52	977	337	13,072	2,491

(1) For the financial years ended 30 June 2012 and 30 June 2013, annual leave entitlements are shown on an accruals basis as part of 'Cash, salary and fees'.
(2) Non-monetary benefits include travel entitlements.
(3) Mr N Chatfield's base salary includes directors fees of $34,404 (2012: $8,786) and superannuation of $3,096 (2012: $791) relating to his services provided to VAIH in his capacity as director.
(4) Mr J Borghetti's base salary includes directors fees of $37,500 (2012: $9,577) relating to his services provided to VAIH in his capacity as director, which he has elected to donate to charity.

All key management personnel are employed by Virgin Australia Airlines Pty Limited.

Ms M McArthur continues as KMP, however, her senior executive role changed on 11 April 2013 from Group Executive, Alliances and Network Yield to Group Executive, Virgin Australia Regional Airlines.

Ms J Crompton commenced as KMP in the role of Group Executive Sales on 1 August 2012. Ms Crompton's role changed to Chief Commercial Officer on 11 April 2013 to reflect the expanded portfolio of Sales, Alliances and Network Yield.

Mr R Tanner continued to be employed as Group Executive, Workplace Relations and Integration. Formerly Mr Tanner was employed as the Group Executive, People. This role change was effective 1 March 2013 on the appointment of Ms G Chin Moody. Mr Tanner ceased as KMP on 28 February 2013 due to his role no longer reporting to the CEO. Mr Tanner's salary disclosure is reflective of his period as KMP.

5. Remuneration report – audited (continued)

5.9 Remuneration disclosures for the year ended 30 June 2013 (continued)

(a) Remuneration related to performance

2013	Total $'000	Cash-based STI $'000	Share-based STI $'000	LTI $'000	Cash-based STI vested %	Cash-based STI forfeited %	Share-based STI vested %	Share-based STI forfeited %	Performance related remuneration % of total	Value of zero exercise price options as % of total
Non-Executive Directors										
Mr N Chatfield	229	–	–	–	–	–	–	–	–	–
Ms S Mostyn	127	–	–	–	–	–	–	–	–	–
Mr R Thomas	128	–	–	–	–	–	–	–	–	–
Mr M Vaile AO	120	–	–	–	–	–	–	–	–	–
Mr D Baxby	107	–	–	–	–	–	–	–	–	–
Mr J Bayliss	85	–	–	–	–	–	–	–	–	–
Alternate Director										
Mr K Roberts	–	–	–	–	–	–	–	–	–	–
Executive Director										
Mr J Borghetti	3,651	794	147	993	80	20	80	20	53	31
Executives										
Mr S Narayan	1,487	285	163	212	72	28	72	28	44	25
Mr S Donohue	1,305	172	68	122	74	26	74	26	28	15
Mr M Hassell	677	99	80	34	71	29	71	29	31	17
Ms J Crompton (appointed 1 August 2012)	605	86	31	6	68	32	68	32	20	6
Mr N Thompson (appointed 13 August 2012)	660	106	38	9	70	30	70	30	23	7
Ms M McArthur	931	122	122	98	69	31	69	31	37	24
Ms D Keighery	725	92	81	66	74	26	74	26	33	20
Ms J McKeon	767	116	99	71	76	24	76	24	37	22
Ms G Chin Moody (appointed 1 March 2013)	199	42	8	2	81	19	81	19	26	5
Mr R Tanner (ceased as KMP 28 February 2013)	405	–	–	53	n/a	n/a	n/a	n/a	13	13
	12,208	1,914	837	1,666						

(b) LTI – Options granted as compensation

All options refer to options over ordinary shares of Virgin Australia Holdings Limited, which are exercisable on a one-for-one basis. Options are provided at no cost to the recipients. Non-executive directors are not entitled to participate in LTI plans. During the reporting period, 2,157,375 (2012: nil) options vested and nil (2012: nil) shares were issued on the exercise of options previously granted as remuneration. Details of options granted as LTI compensation, exercised and lapsed, including vesting profiles, during the period in which each individual was considered to be KMP, are detailed in the table which follows. No options have been granted since the end of the financial year. No options were forfeited during the 2013 financial year.

5. Remuneration report – audited (continued)

5.9 Remuneration disclosures for the year ended 30 June 2013 (continued)

(b) LTI – Options granted as compensation (continued)

2013	Date granted	Option plan	Number of options: Balance at beginning of year '000	Number of options: Granted in year '000	Number of options: Vested in year '000	Number of options: Lapsed in year '000	Number of options: Balance at end of year '000	Fair value per option at grant date $	Exercise price per option $	% Vested in year	% Lapsed in year (A)	Value of options granted in year (B) $'000	Value of options lapsed in year (C) $'000	Financial years in which grant vests	Expiry date
Executive Director															
Mr J Borghetti	8-May-10	CEOCIS	659	–	–	(659)	–	$0.47	$0.00	0%	100%	–	(298)	30-Jun-13	30-Jun-14
	24-Nov-10	SEOP 13	4,116	–	–	–	4,116	$0.34	$0.00	0%	0%	–	–	30-Jun-13	30-Jun-14
	29-Feb-12	SEOP 16	4,941	–	–	–	4,941	$0.39	$0.00	0%	0%	–	–	30-Jun-14/15[1]	30-Jun-15/16[1]
	1-May-13	SEOP 19	–	2,796	–	–	2,796	$0.25	$0.00	0%	0%	699	–	30-Jun-15/16[2]	30-Jun-16/17[2]
Other key management personnel of the Group															
Mr S Narayan	11-Oct-11	SEOP 14	414	–	(273)	–	141	$0.25	$0.00	66%	0%	–	–	30-Jun-13	30-Jun-14
	29-Feb-12	SEOP 15	1,060	–	–	–	1,060	$0.35	$0.00	0%	0%	–	–	30-Jun-14	30-Jun-15
	1-May-13	SEOP 17	–	694	–	–	694	$0.25	$0.00	0%	0%	173	–	30-Jun-15	30-Jun-16
	1-May-13	SEOP 18	–	653	–	–	653	$0.46	$0.00	0%	0%	300	–	30-Jun-15	30-Jun-16
Mr S Donohue	10-Mar-11	SEOP 12	766	–	(529)	–	237	$0.27	$0.00	69%	0%	–	–	30-Jun-13	30-Jun-14
	29-Feb-12	SEOP 15	813	–	–	–	813	$0.35	$0.00	0%	0%	–	–	30-Jun-14	30-Jun-15
	1-May-13	SEOP 17	–	515	–		515	$0.25	$0.00	0%	0%	129	–	30-Jun-15	30-Jun-16
Mr M Hassell (appointed 23 January 2012)	29-Feb-12	SEOP 15	236	–	–	–	236	$0.35	$0.00	0%	0%	–	–	30-Jun-14	30-Jun-15
	1-May-13	SEOP 17	–	336	–	–	336	$0.25	$0.00	0%	0%	84	–	30-Jun-15	30-Jun-16
Ms J Crompton (appointed 1 August 2012)	1-May-13	SEOP 17	–	336	–	–	336	$0.25	$0.00	0%	0%	84	–	30-Jun-15	30-Jun-16
Mr N Thompson (appointed 13 August 2012)	1-May-13	SEOP 17	–	447	–	–	447	$0.25	$0.00	0%	0%	112	–	30-Jun-15	30-Jun-16
Ms M McArthur	10-Mar-11	SEOP 12	880	–	(607)	–	273	$0.27	$0.00	69%	0%	–	–	30-Jun-13	30-Jun-14
	29-Feb-12	SEOP 15	601	–	–	–	601	$0.35	$0.00	0%	0%	–	–	30-Jun-14	30-Jun-15
	1-May-13	SEOP 17	–	380	–	–	380	$0.25	$0.00	0%	0%	95	–	30-Jun-15	30-Jun-16
Ms D Keighery	10-Mar-11	SEOP 12	579	–	(400)	–	179	$0.27	$0.00	69%	0%	–	–	30-Jun-13	30-Jun-14
	29-Feb-12	SEOP 15	407	–	–	–	407	$0.35	$0.00	0%	0%	–	–	30-Jun-14	30-Jun-15
	1-May-13	SEOP 17	–	268	–	–	268	$0.25	$0.00	0%	0%	67	–	30-Jun-15	30-Jun-16
Ms J McKeon	10-Mar-11	SEOP 12	506	–	(349)	–	157	$0.27	$0.00	69%	0%	–	–	30-Jun-13	30-Jun-14
	29-Feb-12	SEOP 15	460	–	–	–	460	$0.35	$0.00	0%	0%	–	–	30-Jun-14	30-Jun-15
	1-May-13	SEOP 17	–	291	–	–	291	$0.25	$0.00	0%	0%	73	–	30-Jun-15	30-Jun-16
Ms G Chin Moody (appointed 1 March 2013)	1-May-13	SEOP 17	–	86	–	–	86	$0.25	$0.00	0%	0%	21	–	30-Jun-15	30-Jun-16
Mr R Tanner (ceased as KMP 28 February 2013)	10-Mar-11	SEOP 12	772[3]	n/a	n/a	n/a	n/a	$0.27	$0.00	n/a	n/a	n/a	n/a	30-Jun-13	30-Jun-14
	29-Feb-12	SEOP 15	530[3]	n/a	n/a	n/a	n/a	$0.35	$0.00	n/a	n/a	n/a	n/a	30-Jun-14	30-Jun-15

(1) Of the options which vest, 60% of them will vest on 30 June 2014 and 40% will vest on 30 June 2015. Options that have vested will be exercisable no later than 12 months after vesting, after which they will lapse.

(2) Of the options which vest, 60% of them will vest on 30 June 2015 and 40% will vest on 30 June 2016. Options that have vested will be exercisable no later than 12 months after vesting, after which they will lapse.

(3) Between the period 1 July 2012 to the date on which Mr R Tanner ceased as KMP, 28 February 2013, there was no movement in the number of options held.

5. Remuneration report – audited (continued)

5.9 Remuneration disclosures for the year ended 30 June 2013 (continued)

(b) LTI – Options granted as compensation (continued)

A. The percent lapsed in the year represents the reduction from the maximum number of options available to vest due to the performance or service conditions not being achieved.
B. Fair value is independently determined utilising assumptions underlying the Black-Scholes methodology to produce a Monte Carlo simulation model which allows for the incorporation of performance hurdles that must be met before the SEOP vests. The valuation is undertaken in a risk-neutral framework whilst allowing for variables such as volatility, dividends, the risk-free rate, the withdrawal rate and performance hurdles along with constants such as the strike price, term and vesting periods.
C. The value of options that lapsed or were forfeited during the year represents the benefit forgone and was calculated as the number of options at the date the options lapsed or were forfeited, multiplied by the fair value of the options calculated independently at the date the options lapsed or were forfeited but assuming the vesting conditions were satisfied.

(c) STI – Performance rights granted as compensation

All performance rights refer to performance rights over ordinary shares of Virgin Australia Holdings Limited, which are exercisable on a one-for-one basis. Performance rights are provided at no cost to the recipients. Non-executive directors are not entitled to participate in STI plans. Ms J Crompton, Mr N Thompson and Ms G Chin Moody were employed by the Group subsequent to the performance period related to the STI plans detailed below and therefore were not entitled to participate in these plans.

During the reporting period, 443,943 (2012: nil) performance rights vested and 443,943 (2012: nil) shares were issued on the exercise of performance rights previously granted as remuneration. Details of performance rights granted as STI compensation, exercised and lapsed, including vesting profiles, during the period in which each individual was considered to be KMP, are detailed in the table as follows. No performance rights were forfeited during the financial year. No performance rights have been granted since the end of the financial year.

			Number of performance rights												
2013	Date Granted	Plan	Balance at beginning of year '000	Granted in year '000	Vested in year '000	Lapsed in year '000	Balance at end of year '000	Fair value per performance right at grant date $	Exercise price per performance right $	% Vested in year	% Lapsed in year (A)	Value of performance rights granted in year (B) $'000	Value of performance rights lapsed in year (C) $'000	Financial years in which grant vests	Expiry Date
Other key management personnel of the Group															
Mr S Narayan	24-Oct-11	KEPP 11	40	-	(40)	-	-	$0.355	$0.00	100%	0%	-	-	30-Jun-13	1-Jul-12
	6-Sep-12	KEPP 12	-	717	-	-	717	$0.44	$0.00	0%	0%	315	-	30-Jun-14/15/16(1)	1-Jul-14/15/16(1)
Mr S Donohue	24-Oct-11	KEPP 11	116	-	(116)	-	-	$0.355	$0.00	100%	0%	-	-	30-Jun-13	1-Jul-12
	6-Sep-12	KEPP 12	-	554	-	-	554	$0.44	$0.00	0%	0%	244	-	30-Jun-14/15/16(1)	1-Jul-14/15/16(1)
Mr M Hassell (appointed 23 January 2012)	6-Sep-12	KEPP 12	-	176	-	-	176	$0.44	$0.00	0%	0%	78	-	30-Jun-14/15/16(1)	1-Jul-14/15/16(1)
Ms M McArthur	24-Oct-11	KEPP 11	96	-	(96)	-	-	$0.355	$0.00	100%	0%	-	-	30-Jun-13	1-Jul-12
	6-Sep-12	KEPP 12	-	452	-	-	452	$0.44	$0.00	0%	0%	199	-	30-Jun-14/15/16(1)	1-Jul-14/15/16(1)
Ms D Keighery	24-Oct-11	KEPP 11	58	-	(58)	-	-	$0.355	$0.00	100%	0%	-	-	30-Jun-13	1-Jul-12
	6-Sep-12	KEPP 12	-	277	-	-	277	$0.44	$0.00	0%	0%	122	-	30-Jun-14/15/16(1)	1-Jul-14/15/16(1)
Ms J McKeon	24-Oct-11	KEPP 11	56	-	(56)	-	-	$0.355	$0.00	100%	0%	-	-	30-Jun-13	1-Jul-12
	6-Sep-12	KEPP 12	-	328	-	-	328	$0.44	$0.00	0%	0%	144	-	30-Jun-14/15/16(1)	1-Jul-14/15/16(1)
Mr R Tanner (ceased as KMP 28 February 2013)	24-Oct-11	KEPP 11	78	-	(78)	n/a	n/a(2)	$0.355	$0.00	100%	n/a	-	-	30-Jun-13	1-Jul-12
	6-Sep-12	KEPP 12	-	357	n/a	n/a	n/a(2)	$0.44	$0.00	n/a	n/a	157	-	30-Jun-14/15/16(1)	1Jul-14/15/16(1)

(1) Of the performance rights which vest, 40% of them will vest on 1 July 2013, 40% will vest on 1 July 2014 and 20% will vest on 1 July 2015. Performance rights that have vested will be exercisable no later than 12 months after vesting, after which they will lapse.
(2) Mr R Tanner ceased as KMP on 28 February 2013.

5. Remuneration report – audited (continued)

5.9 Remuneration disclosures for the year ended 30 June 2013 (continued)

(c) STI – Performance rights granted as compensation (continued)

A. The percent lapsed in the year represents the reduction from the maximum number of performance rights available to vest due to the performance or service conditions not being achieved.
B. The fair value of performance rights at grant date is independently determined utilising 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.
C. The value of performance rights that lapsed or were forfeited during the year represents the benefit forgone and was calculated as the number of performance rights at the date the performance rights lapsed or were forfeited, multiplied by the fair value of the performance rights calculated independently at the date the performance rights lapsed or were forfeited but assuming the vesting conditions were satisfied.

5.10 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 senior executives are summarised below.

(a) CEO notice and termination conditions

The Group may terminate the CEO appointment:

- By giving him twelve months' notice in writing at any time (or payment in lieu of notice); or
- 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 duties or un-remedied, persistent, wilful or material breaches of the terms of his service agreement).

The CEO may terminate his appointment:

- By giving the Group six months' notice in writing at any time; or
- By giving the Group 30 days' notice in writing on occurrence of a fundamental change (if the CEO ceases to be the most senior executive in the Company, there is substantial diminution in his role and responsibilities or the Company ceases to be listed on a recognised stock exchange), and receive payment equal to 12 months' fixed remuneration.

(b) Senior executives' notice and termination conditions

The Group may terminate a senior executive's appointment:

- By giving six months' notice in writing at any time (or payment in lieu of notice); or
- 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 their duties or un-remedied, persistent, wilful or material breaches of the terms of their service agreement).

Senior executives may terminate their appointment:

- By giving the Group six months' notice in writing at any time.

5.11 Additional information

(a) Equity instruments held by executives

The relevant interests held in securities of Virgin Australia Holdings Limited by the KMP are detailed in note 39 to the consolidated financial statements.

(b) Insurance of officers

During the financial year, the Group paid premiums of $661,543 (2012: $629,535) in respect of directors' and officers' liability insurance contracts which cover former directors and officers, including executive officers of the entity and directors, executive officers and secretaries of its controlled entities.

6. Share options

6.1 Unissued shares under option

At the date of this report, unissued ordinary shares of the Company under option are:

Option plan	Number of shares	Exercise price	Expiry date
Senior Executive Option Plan (SEOP)			
– Issue 12	3,770,896	$0.00	30 June 2014
– Issue 14	140,629	$0.00	30 June 2014
– Issue 15	12,208,384	$0.00	30 June 2015
– Issue 16	4,941,481	$0.00	30 June 2015/2016(1)
– Issue 17	6,610,531	$0.00	30 June 2016
– Issue 18	652,955	$0.00	30 June 2016
– Issue 19	2,796,420	$0.00	30 June 2016/2017(2)
	31,121,296		
CEO SEOP – Issue 13	4,115,903	$0.00	30 June 2014
Total unissued ordinary shares under option	35,237,199		

(1) Of the options which vest, 60% of them will vest on 30 June 2014 and 40% will vest on 30 June 2015. Options that have vested will be exercisable no later than 12 months after vesting, after which they will lapse.

(2) Of the options which vest, 60% of them will vest on 30 June 2015 and 40% will vest on 30 June 2016. Options that have vested will be exercisable no later than 12 months after vesting, after which they will lapse.

7. Shares issued on exercise of options and performance rights

The Company has not issued ordinary shares as a result of the exercise of options during or since the end of the 2013 financial year.

On 1 July 2012, upon vesting of the Group's employee share plans, 6.5 million performance rights represented by shares were issued from the KEPP Trust, a consolidated entity of the Group, resulting in an increase in share capital of $2.2 million.

8. 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. The premium paid for directors' and officers' liability insurance contracts is disclosed in the remuneration report on page 72.

9. Non-audit services

During the year KPMG, the Group's auditor, has performed certain other services in addition to its statutory duties.

The Board has considered the non-audit services provided during the year and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit and Risk Management Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- The non-audit services provided do not undermine 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 Company, acting as an advocate for the Company or jointly sharing risks and rewards.

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

	2013 $'000	2012 $'000
Audit services:		
KPMG:		
Statutory audits and reviews[1]	**1,659**	1,737
Services other than statutory audit:		
KPMG:		
Other assurance services[2]	**340**	307
Other services		
– Taxation services	**–**	1,313
– Other	**5**	563
	345	2,183

(1) 2012 comparatives have been restated to reflect the final total 2012 remuneration for audit related services agreed after the year ended 30 June 2012.

(2) Other assurance services relate to due diligence procedures, assurance services relating to sustainability and compliance with service level agreements, and other non financial statement assurance procedures.

10. Lead auditor's independence declaration under section 307C of the *Corporations Act 2001*

The lead auditor's independence declaration is set out on page 75 and forms part of the directors' report for the financial year ended 30 June 2013.

11. Rounding off

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

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

Neil Chatfield
Director

John Borghetti
Director

Dated at Sydney, 26 September 2013

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 for the year ended 30 June 2013 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

A W Young
Partner

Sydney, 26 September 2013

Consolidated statement of profit or loss

For the year ended 30 June 2013

	Note	2013 $m	2012 $m
Revenue and income			
Revenue	8	**3,987.8**	3,913.5
Other income	9	**16.8**	5.4
Net foreign exchange gains		**15.7**	0.4
Share of net profits of associate accounted for using the equity method		**0.1**	0.2
		4,020.4	3,919.5
Operating expenditure			
Aircraft operating lease expenses		**246.3**	207.6
Airport charges, navigation and station operations		**710.0**	669.0
Contract and other maintenance expenses		**222.2**	186.2
Commissions and other marketing and reservations expenses		**256.5**	275.7
Fuel and oil		**1,125.9**	1,043.8
Labour and staff related expenses		**976.1**	841.4
Other expenses from ordinary activities		**391.7**	343.6
Depreciation and amortisation		**245.0**	246.9
Ineffective cash flow hedges and non-designated derivatives (gains)/losses		**(49.1)**	38.4
Net operating expenses		**4,124.6**	3,852.6
(Loss)/profit before related income tax benefit/(expense) and net finance costs		**(104.2)**	66.9
Finance income		**20.0**	36.5
Finance costs	10	**(65.5)**	(76.2)
Net finance costs		**(45.5)**	(39.7)
(Loss)/profit before income tax benefit/(expense)		**(149.7)**	27.2
Income tax benefit/(expense)	11	**51.6**	(4.4)
Net (loss)/profit attributable to the owners of Virgin Australia Holdings Limited		**(98.1)**	22.8

Earnings per share for (loss)/profit attributable to the ordinary equity holders of the Company:		**Cents**	Cents
Basic earnings per share – (loss)/profit	12	**(4.1)**	1.0
Diluted earnings per share – (loss)/profit	12	**(4.1)**	1.0

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

Consolidated statement of comprehensive income

For the year ended 30 June 2013

	2013 $m	2012 $m
(Loss)/profit for the year	**(98.1)**	22.8
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	**(28.7)**	(19.5)
Effective portion of changes in fair value of cash flow hedges	**89.3**	(34.4)
Net change in fair value of cash flow hedges transferred to profit or loss	**18.7**	32.4
Net change in fair value of cash flow hedges transferred to initial carrying value of hedged item	**–**	0.3
Income tax benefit/(expense) on other comprehensive income	**(32.4)**	0.5
Other comprehensive income/(loss) for the year, net of income tax	**46.9**	(20.7)
Total comprehensive (loss)/income for the year attributable to the owners of Virgin Australia Holdings Limited	**(51.2)**	2.1

The above consolidated statement of comprehensive income is to be read in conjunction with the accompanying notes to the consolidated financial statements.

Consolidated statement of financial position

As at 30 June 2013

	Note	2013 $m	2012 $m
Current assets			
Cash and cash equivalents	13	**580.5**	802.6
Trade and other receivables	14	**257.4**	202.8
Inventories	15	**29.8**	14.9
Derivative financial instruments	16	**96.8**	0.6
Other financial assets	17	**3.4**	8.1
Other current assets	18	**3.0**	2.6
Current tax assets	11	**–**	0.4
Total current assets		**970.9**	1,032.0
Non-current assets			
Trade and other receivables	14	**1.8**	8.0
Derivative financial instruments	16	**16.8**	0.1
Other financial assets	17	**42.6**	47.7
Investments accounted for using the equity method	19	**7.8**	7.7
Deferred tax assets	20	**32.6**	10.9
Property, plant and equipment	21	**3,005.2**	2,769.0
Intangible assets	22	**329.6**	101.0
Other non-current assets	18	**18.7**	18.8
Total non-current assets		**3,455.1**	2,963.2
Total assets		**4,426.0**	3,995.2
Current liabilities			
Trade and other payables	23	**580.4**	505.5
Interest-bearing liabilities	24	**373.5**	254.0
Derivative financial instruments	16	**–**	36.1
Provisions	25	**102.0**	104.1
Unearned revenue	26	**736.1**	691.9
Other current liabilities	27	**1.1**	–
Total current liabilities		**1,793.1**	1,591.6
Non-current liabilities			
Trade and other payables	23	**6.6**	2.8
Interest-bearing liabilities	24	**1,516.4**	1,420.1
Derivative financial instruments	16	**9.3**	16.4
Provisions	25	**53.6**	25.9
Other non-current liabilities	27	**6.9**	–
Deferred tax liabilities	28	**–**	8.7
Total non-current liabilities		**1,592.8**	1,473.9
Total liabilities		**3,385.9**	3,065.5
Net assets		**1,040.1**	929.7
Equity			
Share capital	29	**794.7**	633.3
Reserves	30	**100.5**	53.4
Retained profits		**144.9**	243.0
Total equity		**1,040.1**	929.7

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

Consolidated statement of changes in equity

For the year ended 30 June 2013

	Note	Share capital $m	Foreign currency translation reserve $m	Hedging reserve $m	Share-based payments reserve $m	Retained earnings $m	Total equity $m
		Attributable to owners of the Company					
Balance at 1 July 2011		633.3	90.9	(33.5)	15.4	220.2	926.3
Total comprehensive income for the year							
(Loss)/profit for the year		–	–	–	–	22.8	22.8
Other comprehensive income(1)							
Foreign currency translation differences		–	(19.5)	–	–	–	(19.5)
Effective portion of changes in fair value of cash flow hedges		–	–	(24.1)	–	–	(24.1)
Net change in fair value of cash flow hedges transferred to profit or loss		–	–	22.7	–	–	22.7
Net change in fair value of cash flow hedges transferred to initial carrying value of hedged item		–	–	0.2	–	–	0.2
Total other comprehensive income/(loss)		–	(19.5)	(1.2)	–	–	(20.7)
Total comprehensive income/(loss) for the year		–	(19.5)	(1.2)	–	22.8	2.1
Transactions with owners, recorded directly in equity(1)							
Issue of ordinary shares for cash	29	–	–	–	–	–	–
Issue of ordinary shares related to business combinations	29	–	–	–	–	–	–
Share-based payment transactions		–	–	–	1.3	–	1.3
Total transactions with owners		–	–	–	1.3	–	1.3
Balance at 30 June 2012		633.3	71.4	(34.7)	16.7	243.0	929.7

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

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

Consolidated statement of changes in equity (continued)

For the year ended 30 June 2013

		Attributable to owners of the Company					
	Note	Share capital $m	Foreign currency translation reserve $m	Hedging reserve $m	Share-based payments reserve $m	Retained earnings $m	Total equity $m
Balance at 1 July 2012		**633.3**	**71.4**	**(34.7)**	**16.7**	**243.0**	**929.7**
Total comprehensive income for the year							
(Loss)/profit for the year		–	–	–	–	(98.1)	(98.1)
Other comprehensive income[1]							
Foreign currency translation differences		–	(28.7)	–	–	–	(28.7)
Effective portion of changes in fair value of cash flow hedges		–	–	62.5	–	–	62.5
Net change in fair value of cash flow hedges transferred to profit or loss		–	–	13.1	–	–	13.1
Net change in fair value of cash flow hedges transferred to initial carrying value of hedged item		–	–	–	–	–	–
Total other comprehensive income/(loss)		**–**	**(28.7)**	**75.6**	**–**	**–**	**46.9**
Total comprehensive income/(loss) for the year		**–**	**(28.7)**	**75.6**	**–**	**(98.1)**	**(51.2)**
Transactions with owners, recorded directly in equity[1]							
Issue of ordinary shares for cash	29	110.7	–	–	–	–	110.7
Issue of ordinary shares related to business combinations	29	48.5	–	–	–	–	48.5
Share-based payment transactions	29	2.2	–	–	0.2	–	2.4
Total transactions with owners		**161.4**	**–**	**–**	**0.2**	**–**	**161.6**
Balance at 30 June 2013		**794.7**	**42.7**	**40.9**	**16.9**	**144.9**	**1,040.1**

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

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

Consolidated statement of cash flows

For the year ended 30 June 2013

	Note	2013 $m	Restated 2012 $m
Cash flows from operating activities			
Cash receipts from customers		**4,347.8**	4,310.8
Cash paid to suppliers and employees		**(4,163.6)**	(3,932.2)
Cash generated from operating activities		**184.2**	378.6
Cash paid for business transformation expenses		**(81.5)**	(5.4)
Finance costs paid		**(63.8)**	(74.6)
Finance income received		**21.7**	36.5
Net cash from operating activities	37	**60.6**	335.1
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(395.7)**	(648.7)
Proceeds on disposal of property, plant and equipment		**56.8**	460.0
Acquisition of subsidiary, net of cash acquired	7	**(42.2)**	–
Amounts advanced for loans and receivables		**–**	(8.0)
Acquisition of intangible assets		**(128.0)**	(44.3)
Proceeds from/(acquisition of) other deposits		**12.7**	(1.8)
Dividends received		**0.4**	–
Net cash used in investing activities		**(496.0)**	(242.8)
Cash flows from financing activities			
Proceeds from borrowings		**354.9**	270.6
Repayment of borrowings		**(267.9)**	(271.4)
Payments of transaction costs related to borrowings		**(10.0)**	(12.7)
Proceeds from share issue	29	**110.7**	–
Loan from related party		**8.7**	–
Net cash from/(used in) financing activities		**196.4**	(13.5)
Net (decrease)/increase in cash and cash equivalents		**(239.0)**	78.8
Cash and cash equivalents at 1 July		**802.6**	731.3
Effect of exchange rate fluctuations on cash held		**16.9**	(7.5)
Cash and cash equivalents at 30 June	13	**580.5**	802.6

The above consolidated statement of cash flows is to be read in conjunction with the accompanying notes to the consolidated financial statements. Refer to note 2(f) for discussion on the restatement of comparative period disclosures.

1. Reporting entity

Virgin Australia Holdings Limited (VAH) (the Company) is a company domiciled in Australia. The address of the Company's registered office and principal place of business is 56 Edmondstone Road, Bowen Hills, Queensland.

The consolidated financial statements of the Company as at and for the year ended 30 June 2013 comprise; the Company and its subsidiaries (together referred to as the Group, and individually as Group entities) and the Group's interest in its associate.

On 19 April 2013, the Group acquired 100% of the issued share capital in Skywest Airlines Pte Ltd, (formerly known as Skywest Airlines Ltd) an entity listed on the Australian and London Stock Exchanges (ASX: SXR, LSE: SKYW). As a result of the acquisition, Skywest Airlines Ltd was delisted and its name changed to Skywest Airlines Pte Ltd. The Group consolidates Skywest Airlines Pte Ltd as required by Australian Accounting Standards. Details of this acquisition are disclosed in note 7.

The Group is a for-profit entity and is primarily involved in the airline industry, both domestic and international.

2. Basis of preparation

(a) Statement of compliance

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

The consolidated financial statements were authorised for issue by the Board of Directors on 26 September 2013.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis with the exception of derivative instruments (financial assets and liabilities) which are measured at fair value.

The Group's current liabilities exceed its current assets for the year ended 30 June 2013. The consolidated financial statements are prepared on a going concern basis, which contemplates continued positive cash flows from operations. The Group had a cash and cash equivalents balance at 30 June 2013 of $580.5 million (2012: $802.6 million) and had positive operating cash flows during the year ended 30 June 2013. The Group has an unrestricted cash balance at 30 June 2013 of $326.5 million (2012: $480.1 million).

Subsequent to the end of the 2013 financial year, the Group has established new subordinated term loan facilities with Air New Zealand Limited (NZX: AIR), Etihad Airways P.J.S.C. and Singapore Airlines Limited (SGX: SIA) as part of a program to further supplement and diversify its funding sources. The facilities are for an amount of AUD $90.0 million in total, with pro-rata contributions from each shareholder based on their economic interest at the end of August 2013. The facilities are for a term of one year and are based on arms-length commercial terms.

(c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the majority of the Group entities.

The Group is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest one hundred thousand dollars unless otherwise stated.

(d) Use of estimates and judgments

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.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is disclosed in note 4.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The significant changes in estimates recognised in the current and previous financial years are detailed in note 5.

(e) Comparatives

Where applicable, various comparative balances have been reclassified to align with current period presentation. Except as described in note 2(f) these amendments have no material impact on the consolidated financial statements.

2. Basis of preparation (continued)

(f) Changes in accounting policies

(i) Presentation of transactions recognised in other comprehensive income

From 1 July 2012 the Group applied amendments to AASB 101 *Presentation of Financial Statements* outlined in AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income*. The change in accounting policy only relates to disclosures and has had no impact on consolidated earnings per share or net income. The changes have been applied retrospectively and require the Group to separately present those items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. These changes are included in the consolidated statement of other comprehensive income.

(ii) Presentation of transactions recognised in the consolidated statement of cash flows

From 1 July 2012 the Group recognised the following changes in the presentation of transactions in the consolidated statement of cash flows:

- Finance income received is recognised as a cash flow from operating activities. In prior financial years, finance income received was recognised as a cash flow from investing activities. This change in accounting policy was made to better reflect the nature of the finance income received by the Group, as the finance income largely represents interest received on cash balances used in operating activities.
- Payments of transaction costs related to borrowings are recognised as a cash flow from financing activities. In prior financial years, these transaction costs were recognised in cash flows from operating activities. This change in accounting policy was made to better reflect the nature of the payments of transaction costs related to borrowings by the Group, as they relate to borrowings used in financing activities.
- Cash paid for business transformation expenses are separately recognised as a cash flow from operating activities. In prior financial years, these expenses formed part of cash paid to suppliers and employees within cash flows from operating activities. This change in accounting policy was made to highlight these separate payments for business transformation expenses as significant operating expenses paid by the Group.

The change in accounting policy only relates to disclosures and has had no impact on consolidated earnings per share, net income or total cash flows. The changes have been applied retrospectively to the consolidated statement of cash flows and the comparative amounts disclosed for the 2012 financial year have been restated.

3. Significant accounting policies

The accounting policies set out below have been consistently applied to all the periods presented in these consolidated financial statements and have been applied consistently by Group entities, except for the change in accounting policy as explained in note 2(f).

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Refer note 3(a)(iv) for the definition of control. 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.

(ii) Special purpose entities

The Group has established special purpose entities (SPEs) for aircraft financing purposes. The Group does not have any direct or indirect shareholding in these SPEs. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE.

(iii) Investments in associates

Associates are those entities in which the Group has significant influence but not control over the financial and operating policies, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes any notional goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated statement of profit or loss, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates reduce the carrying amount of the investment recorded in the consolidated financial statements.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(iii) Investments in associates (continued)

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(iv) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, being the date at which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity in order to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(b) Foreign currency

(i) Transactions and balances

Foreign currency transactions are translated to the functional currency of respective Group entities at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on qualifying cash flow hedges, which are recognised directly in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency gains and losses are reported on a net basis.

(ii) Foreign operations

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at exchange rates at the reporting date;
- Income and expenses are translated at average exchange rates (unless that is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are taken to equity in the foreign currency translation reserve.

When a foreign operation is sold, or borrowings repaid, a proportionate share of such exchange differences is recognised in profit or loss as part of the gain or loss on sale.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are also considered to form part of a net investment in a foreign operation and are recognised directly in the foreign currency translation reserve.

3. Significant accounting policies (continued)

(c) Revenue and other income

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised for the major business activities as follows:

(i) Airline passenger revenue

Airline passenger revenue comprises revenue from passenger ticket sales. Revenue is recognised in profit or loss when carriage is performed. Based on expected future carriage, airline passenger revenue received in advance is carried forward in the consolidated statement of financial position as unearned revenue.

In addition, 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.

(ii) Other revenue

Other revenue comprises revenue earned from the provision of other airline related services (including freight revenue, on-board sales and other product revenue) and revenue from unutilised carriage. Other revenue is recognised in profit or loss at the time the service is provided or upon determination that carriage has not occurred.

(iii) Loyalty program

As described in note 3(s), the Group defers revenue relating to the issuance of points to members in the Velocity frequent flyer program. The receipt of cash from third parties above the fair value of the redemption is recognised immediately in profit or loss. For airline redemptions revenue, is recognised in profit or loss in accordance with the accounting policy for airline passenger revenue above. For non-airline redemptions relating to third parties, revenue is recognised in profit or loss as other revenue when points are redeemed.

(iv) Credit vouchers

Revenue from the redemption of credit vouchers is recognised in profit or loss as other revenue when carriage is complete, or when the credit voucher is no longer expected to be redeemed by the guest based on an analysis of historical non-redemption rates, or upon expiry.

(v) Dividends

Revenue from dividends and distributions from controlled entities and associates are recognised by the parent entity when they are declared by the controlled entities and associates.

(d) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

(e) Net finance costs

Net finance costs comprise interest payable on borrowings calculated using the effective interest rate method, unwinding of the discount on provisions and receivables, interest receivable on funds invested and gains and losses on mark-to-market movement in fair value hedges.

Finance income is recognised in profit or loss as it accrues, using the effective interest rate method. Finance costs are recognised in profit or loss as incurred on an effective interest rate method, except where interest costs relate to qualifying assets in which case they are capitalised to the cost of the assets. If borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of finance costs capitalised are those incurred in relation to that borrowing, net of any interest earned on those borrowings. Where funds are borrowed generally, finance costs are capitalised using a weighted average capitalisation rate.

(f) Income tax

The income tax expense for the period comprises tax payable or receivable on the current period's taxable income or loss based on the notional income tax rate for each jurisdiction, using tax rates enacted or substantively enacted at reporting date, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, and to unused tax losses.

3. Significant accounting policies (continued)

(f) Income tax (continued)

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates 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 for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and temporary differences to measure the deferred tax asset or liability. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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 taxable profit or loss;
- Temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity 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
- Taxable temporary differences arising on initial recognition of goodwill.

Current and deferred tax balances attributable to amounts recognised directly in equity or other comprehensive income are also recognised directly in equity or other comprehensive income.

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 tax 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.

(i) Tax consolidation legislation

VAH and its wholly-owned Australian controlled entities are part of a tax consolidated group.

The head entity, VAH, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, VAH also 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 tax consolidated group.

(g) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability in the consolidated statement of financial position.

Cash flows are included in the consolidated statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(h) Earnings per share

Basic earnings per share (EPS) is calculated by dividing the net profit or loss attributable to members of the Company for the reporting period, after excluding any costs of servicing equity, by the weighted average number of ordinary shares of the Company, adjusted for any bonus elements in ordinary shares issued during the period.

Diluted EPS adjusts the figures used in the determination of basic EPS to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(i) Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

3. Significant accounting policies (continued)

(i) Financial instruments (continued)

(i) Non-derivative financial assets (continued)

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: loans and receivables (refer below).

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment losses. Loans and receivables comprise trade and other receivables, unsecured loans and receivables, cash and cash equivalents and other deposits (included in other financial assets).

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued on the date that they originate. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans, finance leases and trade and other payables.

Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method.

(iii) Share capital – ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are recognised as a deduction in equity, net of any tax effects.

Transactions of the Group sponsored Key Employee Performance Plan Trust are treated as being executed directly by the Company (as the Trust acts as the Company's agent). Accordingly, shares in the Company held by the Trust are recognised as treasury shares and deducted from equity.

(iv) Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency, fuel price, interest rate risk exposures and specific asset purchases denominated in foreign currencies.

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 makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value of cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125%. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Derivatives are recognised initially at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

3. Significant accounting policies (continued)

(i) Financial instruments (continued)

(iv) Derivative financial instruments, including hedge accounting (continued)

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge 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.

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 other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction is recognised in profit or loss. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognised. In other cases, the amount recognised in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

(v) Non-hedge accounted derivative financial instruments

When a derivative financial instrument is not designated in a hedge relationship, all changes in fair value are recognised immediately in profit or loss.

(vi) Embedded derivatives and options and equity warrants

Changes in the fair value of separable embedded derivatives and options and equity warrants are recognised immediately in profit or loss.

(vii) Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

(j) 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 on the basis of 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 applicable variable selling expenses.

(k) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from other comprehensive income of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, 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. Ongoing repairs and maintenance are recognised in profit or loss.

Items of property, plant and equipment are depreciated using the straight-line method over their estimated useful lives, taking into account estimated residual values. 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. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

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. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

3. Significant accounting policies (continued)

(k) Property, plant and equipment (continued)

The depreciation and amortisation rates used for each class of asset for the current and comparative periods are as follows:

	2013	2012
Buildings	**2.5%–10%**	2.5%–10%
Aircraft and aeronautic related assets:		
– Modifications to leased aircraft	**8%–16.7%**	20%
– Rotables and maintenance parts	**3%–11.1%**	3%–11.1%
– Airframe, engines and landing gear	**5%–25%**	5%–25%
– Major cyclical maintenance	**10%–80%**	10%–80%
Plant and equipment		
– Leasehold improvements	**10%–75%**	8.33%–33.3%
– Other	**3%–20%**	3%–20%
Computer equipment	**20%–33.3%**	20%–33.3%
Finance leased assets		
– Buildings	**2.9%**	–
– Aeronautic related assets	**20%–25%**	–

Losses on disposal of an item of property, plant or equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within other expenses in profit or loss.

Repairs and maintenance – owned aircraft

Routine maintenance costs, including annual airframe checks, are taken to profit or loss as incurred.

Major cyclical maintenance on owned aircraft is capitalised to the carrying value of the aircraft as incurred and amortised over the period to the next scheduled heavy maintenance. Any remaining carrying amount of the cost of the previous inspection is derecognised.

Repairs and maintenance – operating leased aircraft

Routine maintenance costs including annual airframe checks are taken to profit or loss as incurred.

Provision is made for the estimated future costs of major maintenance of leased engines, landing gear and auxiliary power units, calculated by reference to the current rectification cost and the number of hours or cycles operated during the period, and the availability of spare aeronautic related parts to be utilised. Provision for the estimated future costs of major maintenance of leased airframes is recognised over the term of the lease. Provision is also made for end of lease obligations to return the aircraft in the condition specified by the lessor. The Group is presently obligated to perform these aircraft rectification requirements pursuant to the operating lease agreements. Provisions are recognised net of reserve payments made to the lessor which are available to be drawn down. The costs of major maintenance are recognised against the provision when incurred.

Leasehold improvements

The cost of improvements to or on leasehold property is amortised over the lower of the unexpired period of the lease or the estimated useful life of the improvement to the Group. Leasehold improvements on plant and equipment and leased aircraft held at the reporting date are being amortised over one to twelve years (2012: three to twelve years).

(l) Intangible assets

(i) Goodwill

Goodwill on acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see note 3(a)(iv). Goodwill on acquisition of associates is included in investments in associates.

Goodwill acquired in business combinations is not amortised. Instead goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing (refer to note 3(n) below). Each of those cash-generating units represents the Group's investment in each region of operation by each primary reporting segment. The two identified cash-generating units are Domestic and International.

3. Significant accounting policies (continued)

(l) Intangible assets (continued)

(ii) Intangible assets with indefinite useful lives

Brand names have an indefinite useful life (refer to note 22(c)). Indefinite life intangible assets are not amortised. Instead, they are tested for impairment annually, or more frequently if events or changes in circumstance indicate that they might be impaired. Indefinite life intangibles are carried at cost less accumulated impairment.

(iii) Other intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the intangible asset over the estimated useful lives. Amortisation methods, useful lives and residual values are reviewed at each annual reporting date.

The amortisation rates used for each class of intangible asset for the current and comparative periods are as follows:

	2013	2012
Software	**12.5%–33.3%**	10%–33.3%
Patents and trademarks	**33.3%**	33.3%
Customer contracts and relationships	**10%–100%**	–

The amortisation period remaining is 7.5 years for software, 4.0 years for customer contracts and 9.8 years for customer relationships.

(iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(m) Leases

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.

(i) Finance leases – as lessee

Finance leased assets are capitalised. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Capitalised lease assets are amortised 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 the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(ii) 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.

(iii) Operating leases – as lessor

Lease income from operating leases is recognised in other revenue on a straight-line basis over the lease term, unless another systematic basis is considered more representative of the time pattern in which benefit is derived from the leased asset is diminished.

(iv) Sale and leaseback transactions

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. If the sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortised over the lease term.

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 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 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.

3. Significant accounting policies (continued)

(n) Impairment

(i) Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Individually significant financial assets are tested for impairment on an individual basis.

In assessing collective impairment, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value-in-use and its fair value less costs to sell. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets, the cash-generating unit. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated have been aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(o) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

(p) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised on an undiscounted basis in current other payables and provisions in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-vesting sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long service leave

The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to reporting date.

3. Significant accounting policies (continued)

(p) Employee benefits (continued)

(ii) Long service leave (continued)

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to state government bonds as appropriate at reporting date which most closely match the terms of maturity of the related liabilities.

(iii) 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 financial report; 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.

(iv) Superannuation plan

The Group is required to make contributions to defined contribution employee 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.

(v) Share-based payments

The Group operates a number of employee option plans and share plans.

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 fair value 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 the 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.

When the Company grants options and performance rights over its shares to employees of subsidiaries, the fair value at grant date is recognised as an increase in the investments in subsidiaries, with a corresponding increase in equity over the vesting period of the grant.

(vi) Termination benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

3. Significant accounting policies (continued)

(q) Provisions

A provision is recognised when there is a present legal, equitable or constructive obligation as a result of a past event, it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are determined by discounting expected future cash flows at a pre-tax rate that is specific to the liability. The unwinding of the discount is recognised as a finance cost.

(i) Maintenance

Refer note 3(k) for the accounting policy relating to provisions for repairs and maintenance – operating leased aircraft.

(ii) Unfavourable contract terms

A provision for unfavourable contract terms was recognised on acquisition of Skywest Airlines Pte Ltd (formerly Skywest Airlines Limited). This provision relates to aircraft operating lease agreements that are unfavourable relative to market terms. The provision is measured at the present value of the unfavourable aircraft rental expense attributable to these lease agreements.

(r) Dividends

Provision is made for the amount of any dividend declared, determined or publicly recommended by the directors on or before the end of the year but not distributed at balance date.

(s) Loyalty program accounting

The Group receives participation fee revenue from third parties for the rights to have Velocity reward points allocated to members of the Velocity frequent flyer program. Members of the Velocity frequent flyer program also accumulate points by travelling on qualifying Group airline services. The obligation to provide awards to members is accounted for by deferring a portion of the flight ticket sales revenue. The amount deferred is the fair value, which is the amount for which the points could be sold separately and includes an estimate of historical trends of breakage.

(t) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(u) Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

(i) Derivatives

The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives and warrants) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at reporting date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts and fuel contracts is determined using forward exchange market rates and fuel prices at the reporting date.

(ii) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(iii) Equity securities

The fair values of investments in equity securities are determined with reference to their quoted closing bid price at the measurement date.

3. Significant accounting policies (continued)

(u) Determination of fair values (continued)

(iv) Non-derivative financial liabilities

Non-derivative financial liabilities are measured at fair value, at initial recognition and for disclosure purposes, at each annual reporting date. Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the measurement date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

(v) Share-based payment transactions

Refer to note 3(p) for discussion of fair value calculations of employee shares and share options.

(vi) Unearned revenue

Refer to note 3(s) for discussion of fair value calculations of Velocity frequent flyer program reward points, which is recorded as unearned revenue.

(vii) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is the estimated amount for which a property could be exchanged on the date of acquisition between a willing buyer and a willing seller in an arms-length transaction after proper marketing wherein the parties had each acted knowledgeably. The fair value of items of plant and equipment, including aircraft and aeronautical related assets, is based on the market approach and cost approaches using quoted market prices for similar items when available and depreciated replacement cost when appropriate. The market approach reflects adjustments for differences in the timing, location, background and subject matter of the assets. Depreciated replacement cost reflects adjustments for physical deterioration in addition to functional and economic obsolescence.

(viii) Intangible assets

The fair value of brand names acquired in a business combination is calculated using the relief from royalty methodology. The fair value is calculated as the net present value of the prospective stream of hypothetical royalty income that would be generated over the expected useful life of the brand name if it was licensed to an independent third party owner. The fair value of customer contracts and customer relationships acquired in a business combination are determined using the excess earnings method. The intangible asset is valued after deducting a fair return on all other assets that contribute to generating the cash flows attributed to the intangible asset.

(ix) Inventories

The fair value of engineering consumables acquired in a business combination is determined using the current replacement cost method, with reference to consumables with equivalent functionality at current prices and costs.

(x) Provisions on acquisition

The fair value of provisions acquired in a business combination is determined differently for each type of provision. The fair value of provisions for employee entitlements has been determined in accordance with the accounting policy in note 3(p), while the provisions for aircraft maintenance have been determined in accordance with the accounting policy in note 3(k). The fair value of the provision for unfavourable aircraft lease terms was determined via the identification of the prospective unfavourable portion of the rental payments associated with the lease agreements, on an incremental cash flow basis. All provisions acquired in a business combination are adjusted for the effect of the time value of money by discounting expected future cash flows at a pre-tax rate that is specific to the liability.

(v) New accounting standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the Group in the period of initial application, are effective for annual periods beginning after 1 July 2013, and have not been applied in preparing these consolidated financial statements:

- AASB 9 *Financial Instruments* introduces changes in the classification and measurement of financial assets and financial liabilities. This standard becomes mandatory for the Group's 30 June 2014 financial statements. The Group has commenced consideration of the potential effects on adoption of the standard.
- AASB 10 *Consolidated Financial Statements*, when it becomes mandatory for the Group's 30 June 2014 financial statements will, supersede AASB 127 *Consolidated and Separate Financial Statements* and Interpretation 112 *Consolidation – Special Purpose Entities*. It introduces a new single control model to assess whether to consolidate an investee. The Group has commenced consideration of the potential effects on adoption of the standard.
- AASB 11 *Joint Arrangements*, when it becomes mandatory for the Group's 30 June 2014 financial statements, introduces a principles based approach to accounting for joint arrangements. If the parties have rights to and obligations for underlying assets and liabilities, the joint arrangement is considered a joint operation and the parties will account for their share of revenue, expenses, assets and liabilities. Otherwise the joint arrangement is considered a joint venture and the parties must use the equity method to account for their interest. The Group has commenced consideration of the potential effects on adoption of the standard.

3. Significant accounting policies (continued)

(v) New accounting standards and interpretations not yet adopted (continued)

- AASB 12 *Disclosure of Interests in Other Entities*, when it becomes mandatory for the Group's 30 June 2014 financial statements, sets out the required disclosures for entities reporting under the two new standards AASB 10 and AASB 11. The Group has commenced consideration of the potential effects on adoption of the standard.
- AASB 13 *Fair Value Measurement* provides a definition of the term fair value and introduces additional disclosure requirements. This is applicable for all assets and liabilities measured at fair value, including non-financial assets and liabilities. This standard becomes mandatory for the Group's 30 June 2014 financial statements. The Group has commenced consideration of the potential effects on adoption of the standard.
- AASB 119 *Employee Benefits* is amended for changes in accounting and disclosures of defined benefit superannuation plans; definitions of short-term and other long-term employee benefits affecting the measurement of the obligations; and the timing for recognition of termination benefits. The amendments become mandatory for the Group's 30 June 2014 financial statements with specific transitional requirements. The Group has commenced consideration of the potential effects on adoption of the standard.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The 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 discussed below.

(a) Estimated impairment of assets

The Group tests annually whether goodwill and intangible assets with indefinite useful lives have suffered any impairment and whether impairment of any non-current assets has occurred in accordance with the accounting policy stated in note 3(n). The recoverable amounts of CGUs have been determined based on value-in-use calculations. Refer to note 22(d) for details of these assumptions.

Impairment of financial assets is assessed in accordance with the accounting policy stated in note 3(n)(i).

(b) Maintenance provisions

Provision is made for the estimated future costs of major maintenance of leased engines, landing gear and auxiliary power units, calculated by reference to the current rectification cost and the number of hours or cycles operated during the period, and the availability of spare aeronautic related parts to be utilised. Provision for the estimated future costs of major maintenance of leased airframes is recognised over the term of the lease. Provision is also made for end of lease obligations to return the aircraft in the condition specified by the lessor. The Group is presently obligated to perform these aircraft rectification requirements pursuant to the operating lease agreements. Provisions are recognised net of reserve payments made to the lessor which are available to be drawn down. The costs of major maintenance are recognised against the provision when incurred.

(c) Financial instruments

As detailed in note 3(i), the Group enters into financial arrangements to manage exposures to interest rate, foreign currency and fuel price risks. Financial instruments are recognised as financial assets and financial liabilities of the Group. The fair value of these financial assets and financial liabilities must be estimated for recognition and measurement disclosure purposes. These calculations require valuation techniques using various methods and assumptions. Refer to note 35 for further details regarding financial instruments.

(d) Residual values and estimated useful lives

Determining the depreciable amount of aircraft requires the use of assumptions regarding the residual value of the aircraft at the estimated time of disposal. Residual value is estimated based on market estimates of future aircraft values and current expectations of the aircraft operations. Assessments are made of the maintenance profile of owned aircraft and the timing of when specific maintenance events are considered likely to occur. This impacts the residual value assessment. The market for aircraft is based on US dollars, residual value estimates are also affected by movements in the US dollar against the Australian dollar.

(e) Deferred points revenue

As described in note 3(s), the Group defers revenue relating to participation by members in the Velocity frequent flyer program. This revenue is deferred and recognised in profit or loss when reward points are redeemed. The amount of revenue deferred is calculated using assumptions regarding the fair value of reward points. The fair value of the reward points is reduced to reflect points that are expected to lapse under the rules of the Velocity frequent flyer program. Assumptions are based on historical trends experienced within the program.

4. Critical accounting estimates and judgements (continued)

(f) Credit vouchers

The key assumption in measuring the liability for credit vouchers is the expected redemption rate by guests. Expected redemption rates are reviewed at each reporting date. Any reassessment of the expected redemption rates in a particular period will affect the revenue recognised from expiry of credit vouchers (either increasing or decreasing).

(g) Unearned passenger revenue

The historical trends of passenger non-attendance rates is a key assumption in the measurement of unearned passenger revenue. Expected non-attendance rates are reviewed at each reporting date. Any reassessment of the expected rate of non-attendance in a particular period will affect the airline passenger revenue recognised (either increasing or decreasing).

(h) Long service leave

Management judgement is applied in determining the following key assumptions used in the calculation of the liability for long service leave at reporting date:

- Future increases in salaries and wages;
- Future on-cost rates;
- Experience of employee departures and period of service; and
- Discount rates.

(i) Income tax

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(j) Share-based payments

In determining the fair value of the option granted the impact of any service and non-market vesting conditions (for example, profitability and sales growth targets) are excluded. 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.

(k) Basis of control of Virgin Australia International Holdings Pty Ltd

Refer to note 36, sub-note 9.

5. Change in accounting estimates

The significant changes in estimates recognised in the current and previous financial years are:

(a) Maintenance provisions

The Group continually assesses maintenance obligations including those under leasing arrangements. The Group has an evolving lease portfolio with the addition of new aircraft types to the fleet. Aircraft leasing arrangements are increasingly on compensation arrangements which impact the determination of the future maintenance obligations for leased aircraft.

Total contract and other maintenance expenses have increased by 19.3% for the year ended 30 June 2013 compared to the corresponding year ended 30 June 2012. Included in this increase are estimated changes relating to component overhauls on leased aircraft. This increase of 19.3% is inclusive of the impact relating to a reassessment of estimates for maintenance provisions as at 30 June 2013, which resulted in a decrease in maintenance expenses of $20.1 million.

(b) Estimation of unearned revenue redemption rates

There is a continuous assessment of future obligations in relation to credit vouchers. As a consequence of continuing system improvements and a review of historical issued and expired credit vouchers, there has been a reassessment of credit voucher redemption rates resulting in an increase in revenue of $8.0 million for the year ended 30 June 2013 (2012: $18.9 million). The continuous assessment of unearned passenger revenue obligations and historical trends of non-attendance rates has resulted in an increase in revenue of $11.1 million for the year ended 30 June 2013 (2012: nil). As a result of a period of non-disrupted activity in the market and greater levels of program information, a review of the Velocity frequent flyer program occurred during the year ended 30 June 2013, resulting in an increase in program revenue of $14.6 million (2012: nil).

(c) Estimated useful lives of assets

During the current and prior year the Group undertook a review of the useful lives and residual values of certain assets. The depreciation and amortisation rates used for each class of property, plant and equipment assets in the current and prior year as follows:

	2013	2012	2011
Buildings	**2.5%–10%**	2.5%–10%	2.5%–10%
Aircraft and aeronautic related assets:			
– Modifications to leased aircraft	**8%–16.7%**	20%	20%
– Rotables and maintenance parts	**3%–11.1%**	3%–11.1%	7.25%
– Airframe, engines and landing gear	**5%–25%**	5%–25%	5%–25%
– Major cyclical maintenance	**10%–80%**	10%–80%	10%–80%
Plant and equipment			
– Leasehold improvements	**10%–75%**	8.33%–33.3%	12.5%–33.3%
– Other	**3%–20%**	3%–20%	12.5%–20%
Computer equipment	**20%–33.3%**	20%–33.3%	33.3%
Finance leased assets			
– Buildings	**2.9%**	–	–
– Aeronautic related assets	**20%–25%**	–	–

During the current year the Group identified a change in the useful lives of plant and equipment and leasehold improvements based on the intended use of these items. The net impact of these changes in useful lives of assets resulted in a $7.2 million decrease to depreciation expense for the year ended 30 June 2013. The impact in future financial years for this change is expected to be a decrease in depreciation expense of $11.8 million, $12.5 million and $12.5 million in the financial years ended 2014, 2015 and 2016 respectively.

During the 2012 financial year, management undertook a review of the useful lives of buildings, rotables, maintenance parts, plant and computer equipment based on technology changes and the intended use of those items. In addition, the residual values of aircraft and aeronautic related assets were reassessed based on market estimates. The net impact of these changes in useful lives of assets and residual values of aircraft was immaterial to depreciation expense for the year ended 30 June 2012. The impact in future financial years for changes in useful lives was expected to be a decrease in depreciation and amortisation expense of $8.2 million, $15.8 million and $13.9 million in the financial years ended 2013, 2014 and 2015 respectively.

6. Operating segments

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

- Domestic operations: Operations using the fleet of Boeing B737 aircraft, Airbus A320 and A330 aircraft, ATR aircraft, Embraer E170 and E190 aircraft, and Fokker F50 and F100 aircraft. This comprises Australian domestic flying, including regional network operations. The Group's Velocity frequent flyer program is also reported within domestic operations.
- International operations: Operations using a mix of Boeing B777 aircraft and Boeing B737 aircraft. This comprises Trans-Pacific, Abu Dhabi, Trans-Tasman, Pacific Island and South East Asia flying.

Information regarding the results of each operating segment is detailed in the table which follows. Performance is measured based on EBIT (earnings before accelerated depreciation due to changes in useful life of assets, business transformation and other expenses, including net loss on disposal/write down of property, plant and equipment, unrealised ineffectiveness on cash flow hedges and non-designated derivatives, net finance costs and income tax benefit/(expense)) as included in the internal management reports that are reviewed by the chief operating decision maker.

The 30 June 2012 comparative numbers have been restated to reflect the current definition of EBIT.

EBIT is used to measure performance, as management believes such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within the airline industry.

Inter-segment pricing is determined on an arms-length basis or a cost plus margin basis, depending on the nature of the revenue or expense and the financial impact on the segment of recognising the revenue or expense.

6. Operating segments (continued)

2013	Domestic $m	International $m	Eliminations $m	Consolidated $m
Revenue and other income				
External revenue and other income	**2,899.2**	**1,121.1**	**–**	**4,020.3**
Inter-segment revenue	**154.4**	**–**	**(154.4)**	**–**
Segment revenue	**3,053.6**	**1,121.1**	**(154.4)**	**4,020.3**
Share of net profit of associate	**–**	**0.1**	**–**	**0.1**
Segment EBITDAR	**296.2**	**128.9**	**–**	**425.1**
Aircraft rentals	**(202.2)**	**(32.4)**	**–**	**(234.6)**
Segment EBITDA	**94.0**	**96.5**	**–**	**190.5**
Depreciation and amortisation[1]	**(146.1)**	**(92.6)**	**–**	**(238.7)**
Segment EBIT excluding time value movement on cash flow hedges	**(52.1)**	**3.9**	**–**	**(48.2)**
Time value movement on cash flow hedges[2][3]	**7.7**	**3.8**	**–**	**11.5**
Segment EBIT	**(44.4)**	**7.7**	**–**	**(36.7)**
Accelerated depreciation due to changes in useful life of assets[1]				**(6.3)**
				(43.0)
Business transformation and other expenses, including net loss on disposal/write down of property, plant and equipment				**(98.8)**
				(141.8)
Unrealised ineffectiveness on cash flow hedges and non-designated derivatives[2]				**37.6**
				(104.2)
Net finance costs				**(45.5)**
(Loss)/profit before related income tax benefit/(expense)				**(149.7)**
Income tax benefit/(expense)				**51.6**
(Loss)/profit for the period				**(98.1)**

(1) The addition of these two items reconcile to total depreciation and amortisation expense included within operating expenditure as disclosed in the consolidated statement of profit or loss.

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

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

6. Operating segments (continued)

2012	Domestic $m	International $m	Eliminations $m	Consolidated $m
Revenue and other income				
External revenue and other income	2,865.9	1,053.4	–	3,919.3
Inter-segment revenue	82.0	–	(82.0)	–
Segment revenue	2,947.9	1,053.4	(82.0)	3,919.3
Share of net profit of associate	–	0.2	–	0.2
Segment EBITDAR	427.2	144.7	–	571.9
Aircraft rentals	(147.9)	(40.5)	–	(188.4)
Segment EBITDA	279.3	104.2	–	383.5
Depreciation and amortisation(1)	(163.7)	(68.8)	–	(232.5)
Segment EBIT excluding time value movement on cash flow hedges	115.6	35.4	–	151.0
Time value movement on cash flow hedges(2)(3)	(22.4)	(11.9)	–	(34.3)
Segment EBIT	93.2	23.5	–	116.7
Accelerated depreciation due to change in useful life of assets(1)				(14.4)
				102.3
Business transformation and other expenses, including net loss on disposal/write down of property, plant and equipment				(31.3)
				71.0
Unrealised ineffectiveness on cash flow hedges and non-designated derivatives(2)				(4.1)
				66.9
Net finance costs				(39.7)
(Loss)/profit before related income tax benefit/(expense)				27.2
Income tax benefit/(expense)				(4.4)
(Loss)/profit for the period				22.8

(1) The addition of these two items reconcile to total depreciation and amortisation expense included within operating expenditure as disclosed in the consolidated statement of profit or loss.

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

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

(a) Geographical segments

Ticket sales revenue from domestic services within Australia is attributed to the Australia geographic region. Guest and other services revenue from inbound and outbound services between Australia and overseas is allocated proportionately to the area in which point of sale occurs. 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	Other $m	Unallocated $m	Consolidated $m
2013						
External revenues and other income	**3,313.8**	**135.3**	**136.4**	**77.8**	**357.0**	**4,020.3**
2012						
External revenues and other income	3,249.2	113.7	161.7	20.9	373.8	3,919.3

For the years ended 30 June 2013 and 30 June 2012, the principal assets of the Group comprised the aircraft fleet, all of which were registered and domiciled in Australia. 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.

7. Acquisition of subsidiary

On 19 April 2013, the Group acquired 100% of the shares and voting interests in the Skywest Airlines Pte Ltd (formerly Skywest Airlines Limited) group (Skywest Group). The primary operating entity of the Skywest Group was Skywest Airlines (Australia) Pty Limited, an airline operating out of Western Australia, Australia.

The acquisition is expected to accelerate the Group's growth in regional and Fly-In, Fly-Out markets, increasing competition in those segments.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

(a) Consideration transferred

Under the terms of the agreement, Skywest Airlines Pte Ltd shareholders were entitled to receive $0.225 in cash plus 0.53 VAH shares for each share in Skywest Airlines Pte Ltd.

	Note	$m
Cash		50.2
Equity instruments issued (112.9 million ordinary shares)	29(a)	48.5
Settlement of pre-existing relationships		15.3
		114.0

(i) Equity instruments issued

The fair value of the ordinary shares issued was based on the listed share price of the Company at 19 April 2013 of $0.43 per share.

(ii) Settlement of pre-existing relationships

Prior to the acquisition of Skywest Airlines Pte Ltd, the Group was party to a number of pre-existing relationships with the Skywest Group. The arrangements include the Australian Regional Airline Network (ARAN) agreement, Velocity frequent flyer program and a convertible loan note. In line with the requirements of AASB 3 *Business Combinations*, the Group has recognised the effective settlement, based on fair values, of these pre-existing arrangements on the acquisition of the Skywest Group resulting in an increase in purchase price of $15.3 million. These relationships now eliminate on consolidation and as such, are no longer disclosed in the consolidated financial statements of the Group.

(iii) Acquisition related costs

The Group incurred acquisition related costs of $1.7 million related to external legal fees and due diligence costs. These costs have been included in other expenses from ordinary activities in the Group's consolidated statement of profit or loss.

7. Acquisition of subsidiary (continued)

(b) Identifiable assets acquired and liabilities assumed

	$m
Current assets	
Cash and cash equivalents	8.0
Trade and other receivables	20.0
Inventories	4.8
Other current assets	0.1
Current tax assets	2.1
Total current assets	35.0
Non-current assets	
Other financial assets	3.6
Deferred tax assets	3.9
Property, plant and equipment	33.7
Intangible assets	25.6
Total non-current assets	66.8
Total assets	101.8
Current liabilities	
Trade and other payables	43.0
Derivative financial instruments	0.1
Interest-bearing liabilities	4.2
Provisions	17.4
Unearned revenue	7.4
Total current liabilities	72.1
Non-current liabilities	
Interest-bearing liabilities	0.9
Provisions	16.5
Total non-current liabilities	17.4
Total liabilities	89.5
Net assets	12.3

Accounting for the acquisition of Skywest Airlines Pte Ltd has only been provisionally determined at the end of the reporting period. At the date of finalisation of these consolidated financial statements, the necessary market valuations and other calculations had not been finalised and they have therefore only been provisionally determined based on the directors' best estimates.

If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, or any additional liabilities that existed at the acquisition date, then the acquisition accounting will be revised.

Included in trade and other receivables above are acquired trade receivables with a fair value of $14.4 million. These trade receivables were primarily supported by contracts with third party charter customers. The full amount of the contractual trade receivables has been collected post acquisition.

7. Acquisition of subsidiary (continued)

(c) Goodwill

Goodwill was recognised as a result of the acquisition as follows:

	Note	$m
Total consideration transferred		114.0
Fair value of identifiable net assets		(12.3)
	22	101.7

Goodwill arose in the acquisition of the Skywest Group as the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and the assembled workforce of the Skywest Group. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising on this acquisition is not expected to be deductible for tax purposes.

(d) Net cash outflow on acquisition

	$m
Consideration paid in cash	50.2
Less: cash and cash equivalent balances acquired	(8.0)
	42.2

(e) Impact on the financial results of the Group

Included in the Group's pre-tax loss for the year ended 30 June 2013 is $10.2 million attributable to losses generated by the Skywest Group. Revenue for the year ended 30 June 2013 includes $54.8 million in respect of the Skywest Group.

Had this business combination been effected at 1 July 2012, the revenue of the Group from continuing operations would have been $4,206.2 million, and the consolidated pre-tax loss for the year ended 30 June 2013 from continuing operations would have been $142.1 million. The directors of the Company consider these pro-forma numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

In determining the pro-forma revenue and loss of the Group had the Skywest Group been acquired at the beginning of the current financial year, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 July 2012.

8. Revenue

	2013 $m	2012 $m
Airline passenger revenue	**3,461.0**	3,495.6
Other revenue	**526.8**	417.9
	3,987.8	3,913.5

9. Other income

	2013 $m	2012 $m
Government grants	2.8	5.4
Aircraft lease income	14.0	–
	16.8	5.4

Government grants of $2.8 million (2012: $5.4 million) were recognised as other income by the Group during the financial year. Refer to note 34(b)(i) for details of conditions or contingencies attaching to these grants.

Aircraft lease income relates to income generated from the leasing of owned aircraft no longer required for Virgin Australia services. Refer to note 10(b).

10. Expenses

Loss/(profit) before income tax (benefit)/expense includes the following specific expenses:

(a) Finance costs

	2013 $m	2012 $m
Finance costs		
– Interest and finance charges paid/payable	**75.4**	88.4
– Less: capitalised finance charges	**(9.9)**	(12.2)
Finance costs expensed	**65.5**	76.2

Finance charges were capitalised at a weighted average rate of 2.8% (2012: 4.5%).

(b) Operating lease rentals

	2013 $m	2012 $m
Aircraft operating lease rentals:		
– Minimum lease payments	**246.3**	207.6
– Maintenance reserves payments	**49.9**	50.8
Other operating lease rentals	**55.2**	47.7
Total operating lease rentals	**351.4**	306.1

Owned aircraft no longer required for Virgin Australia services have been leased, and do not form part of the above disclosure – refer to note 33(b) for minimum lease payments receivable under this agreement. Refer to note 9 for income received under this agreement.

(c) Loss on disposal

	2013 $m	2012 $m
Net loss on disposal of property, plant and equipment[1]	**2.0**	25.0

(1) The 2012 financial year included net loss on disposal of property, plant and equipment of $1.0 million, write-downs of $18.5 million and impairment losses of $4.1 million relating to aircraft and aeronautic related assets (refer note 21(b)), and write-downs and disposal of intangible assets of $1.4 million (refer note 22(b)).

11. Income tax (benefit)/expense

(a) Income tax (benefit)/expense

	Note	2013 $m	2012 $m
Current tax		**–**	(0.4)
Deferred tax		**(58.3)**	2.1
(Over)/under provided in prior years		**6.7**	2.7
Income tax (benefit)/expense attributable to continuing operations		**(51.6)**	4.4
Deferred income tax (revenue)/expense included in income tax expense comprises:			
(Increase)/decrease in deferred tax assets	20	**(119.5)**	3.4
Increase/(decrease) in deferred tax liabilities	28	**61.2**	(1.3)
		(58.3)	2.1

(b) Reconciliation of income tax (benefit)/expense to pre-tax accounting (loss)/profit

	2013 $m	2012 $m
(Loss)/profit from continuing operations before income tax (benefit)/expense	**(149.7)**	27.2
Tax at the Australian tax rate of 30% (2012: 30%)	**(44.9)**	8.2
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
– Non-deductible expenditure	**2.7**	0.5
– Differences in overseas tax rates	**0.4**	0.7
– Sundry items	**(5.9)**	(3.3)
	(47.7)	6.1
Over provision in prior years	**(3.9)**	(1.7)
Income tax (benefit)/expense	**(51.6)**	4.4

(c) Income tax recognised in other comprehensive income

	2013			2012		
	Before tax $m	Tax benefit/ (expense) $m	Net of tax $m	Before tax $m	Tax benefit/ (expense) $m	Net of tax $m
Foreign currency translation differences for foreign operations	**(28.7)**	**–**	**(28.7)**	(19.5)	–	(19.5)
Cash flow hedges	**108.0**	**(32.4)**	**75.6**	(1.7)	0.5	(1.2)
	79.3	**(32.4)**	**46.9**	(21.2)	0.5	(20.7)

12. Earnings per share

(a) Reconciliation of earnings used in calculating earnings per share

	2013 $m	2012 $m
(Loss)/profit attributable to ordinary shareholders	**(98.1)**	22.8
Basic earnings	**(98.1)**	22.8
Diluted earnings	**(98.1)**	22.8

(b) Reconciliation of weighted average number of shares

	2013 Number (m)	2012 Number (m)
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**2,373.2**	2,190.0
Adjustments for calculation of diluted earnings per share:		
– Effect of share options and performance rights on issue	**–**	–
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**2,373.2**	2,190.0

(c) Information concerning shares

The average market value of the Company's shares for the purposes of calculating the dilutive effect of share options and performance rights was based on quoted market prices for the period that the options and performance rights were outstanding.

At 30 June 2013, 50.9 million options and performance rights (2012: 49.6 million) were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

13. Cash and cash equivalents

	2013 $m	2012 $m
Cash at bank and in hand	**107.9**	178.2
Deposits	**472.6**	624.4
Cash and cash equivalents in the consolidated statement of cash flows	**580.5**	802.6

(a) Restricted cash

The amount of restricted cash included in cash and cash equivalents but not available for use is:

Restricted cash	**254.0**	322.5

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.

(b) Interest rate risk

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in note 35.

14. Trade and other receivables

	2013 $m	2012 $m
Current		
Trade receivables	**151.4**	88.6
Less: provision for doubtful receivables	**(0.2)**	(0.1)
	151.2	88.5
Other receivables	**35.8**	73.3
Less: provision for doubtful receivables	**(0.1)**	(4.1)
	35.7	69.2
Prepayments	**70.5**	45.1
	257.4	202.8
Non-current		
Loans and receivables – unsecured	**–**	8.0
Other receivables	**1.8**	–
	1.8	8.0

The Group's exposure to credit and currency risk and impairment losses related to trade and other receivables is disclosed in note 35.

15. Inventories

	2013 $m	2012 $m
Engineering expendables – at cost	**20.9**	8.9
Consumables stores – at cost	**8.4**	6.0
Other – at cost	**0.5**	–
	29.8	14.9

Inventories expensed during the 2013 financial year totalled $95.6 million (2012: $79.1 million).

16. Derivative financial instruments

	2013 $m	2012 $m
Current assets		
Forward foreign exchange contracts – cash flow hedges	**48.9**	0.5
Fuel hedging contracts – cash flow hedges	**47.9**	–
Equity warrants	**–**	0.1
	96.8	0.6
Non-current assets		
Forward foreign exchange contracts – cash flow hedges	**9.8**	–
Fuel hedging contracts – cash flow hedges	**7.0**	0.1
	16.8	0.1
Current liabilities		
Forward foreign exchange contracts – cash flow hedges	**–**	2.8
Fuel hedging contracts – cash flow hedges	**–**	33.3
	–	36.1
Non-current liabilities		
Fuel hedging contracts – cash flow hedges	**–**	2.2
Interest rate swap contracts – cash flow hedges	**9.3**	14.2
	9.3	16.4

17. Other financial assets

	2013 $m	2012 $m
Current		
Deposits	**3.4**	8.1
Non-current		
Deposits	**42.6**	47.7

18. Other assets

	2013 $m	2012 $m
Current		
Future lease payments	**3.0**	2.6
Non-current		
Future lease payments	**18.7**	18.8

During the 2013 and 2012 financial years, a number of sale and leaseback transactions took place which resulted in losses on sale being deferred against future lease payments. See note 3(m)(iv) which discusses the Group's accounting policy on these transactions.

19. Investments accounted for using the equity method

(a) Carrying amounts

Information relating to associates is set out below:

	Ownership interest		Carrying amount	
Name of company	2013 %	2012 %	2013 $m	2012 $m
Unlisted				
Virgin Samoa Limited	**49%**	49%	**7.8**	7.7

The principal activity of Virgin Samoa Limited is the operation of airline activities between Samoa and Australia/New Zealand. Virgin Samoa Limited is incorporated in Samoa.

During the year ended 30 June 2013, the Group received a dividend of $0.4 million (2012: $nil) from its investment in Virgin Samoa Limited.

(b) Summarised financial information of associate, not adjusted for percentage ownership held by the Group

	100%			
	Assets $m	Liabilities $m	Revenues $m	Profit after tax $m
2013				
Virgin Samoa Limited	**20.8**	**10.7**	**40.8**	**0.2**
2012				
Virgin Samoa Limited	14.9	4.8	39.8	1.0

20. Deferred tax assets

	Note	2013 $m	2012 $m
The balance comprises temporary differences attributable to:			
Amounts recognised in profit or loss			
Employee benefits		**24.6**	26.3
General accruals		**34.0**	32.2
Tax loss carried forward		**266.6**	148.5
Other		**10.6**	5.4
		335.8	212.4
Amounts recognised directly in equity and other comprehensive income			
Equity raising costs		**1.4**	0.9
Cash flow hedges		**(17.5)**	14.8
		319.7	228.1
Set-off of deferred tax liabilities pursuant to set-off provisions	28	**(287.1)**	(217.2)
Net deferred tax assets		**32.6**	10.9
Movements			
Opening balance		**228.1**	232.0
Recognised in profit or loss		**119.5**	(3.4)
Recognised in equity and other comprehensive income		**(31.8)**	(0.5)
Acquired through business combinations	7	**3.9**	–
Closing balance		**319.7**	228.1

See note 3(f) for details of the Group's accounting policy on the recognition of deferred tax assets on deductible temporary differences and income tax losses.

21. Property, plant and equipment

2013	Buildings $m	Aircraft and aeronautic related assets $m	Plant and equipment $m	Computer equipment $m	Finance leased assets $m	Work in progress $m	Total $m
At cost[1]	**95.4**	**3,931.7**	**229.5**	**46.6**	**24.6**	**40.0**	**4,367.8**
Accumulated depreciation and impairment	**(29.6)**	**(1,171.7)**	**(121.8)**	**(39.4)**	**(0.1)**	**–**	**(1,362.6)**
Carrying amount at end of year	**65.8**	**2,760.0**	**107.7**	**7.2**	**24.5**	**40.0**	**3,005.2**

2012	Buildings $m	Aircraft and aeronautic related assets $m	Plant and equipment $m	Computer equipment $m	Finance leased assets $m	Work in progress $m	Total $m
At cost[1]	117.4	3,473.1	178.0	42.8	–	15.7	3,827.0
Accumulated depreciation and impairment	(26.6)	(884.7)	(109.8)	(36.9)	–	–	(1,058.0)
Carrying amount at end of year	90.8	2,588.4	68.2	5.9	–	15.7	2,769.0

(1) As at 30 June 2013, included in aircraft and aeronautic related assets are deposits and other costs incurred in respect of aircraft which have not yet been delivered totalling $138.0 million (2012: $168.0 million).

(a) Reconciliations

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

2013	Buildings $m	Aircraft and aeronautic related assets $m	Plant and equipment $m	Computer equipment $m	Finance leased assets $m	Work in progress $m	Total $m
Carrying amount at beginning of year	**90.8**	**2,588.4**	**68.2**	**5.9**	**–**	**15.7**	**2,769.0**
Acquisitions through business combinations	**0.2**	**25.4**	**5.0**	**0.2**	**1.6**	**1.3**	**33.7**
Other additions	**0.1**	**330.7**	**30.4**	**4.6**	**23.0**	**38.0**	**426.8**
Disposals	**(18.7)**	**(35.1)**	**–**	**–**	**–**	**(1.3)**	**(55.1)**
Depreciation	**(6.6)**	**(199.6)**	**(9.6)**	**(3.5)**	**(0.1)**	**–**	**(219.4)**
Impairment loss	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Transfers[1]	**–**	**–**	**13.7**	**–**	**–**	**(13.7)**	**–**
Foreign exchange movements	**–**	**50.2**	**–**	**–**	**–**	**–**	**50.2**
Carrying amount at end of year	**65.8**	**2,760.0**	**107.7**	**7.2**	**24.5**	**40.0**	**3,005.2**

(1) Transfers relate to amounts which were disclosed within work in progress at 30 June 2012 which were capitalised during the 2013 financial year.

21. Property, plant and equipment (continued)

(a) Reconciliations (continued)

2012	Buildings $m	Aircraft and aeronautic related assets $m	Plant and equipment $m	Computer equipment $m	Finance leased assets $m	Work in progress $m	Total $m
Carrying amount at beginning of year	95.2	2,563.1	55.5	4.0	–	25.1	2,742.9
Acquisitions through business combinations	–	–	–	–	–	–	–
Other additions	0.4	620.3	9.3	5.0	–	13.7	648.7
Disposals	–	(471.3)	(0.2)	–	–	–	(471.5)
Depreciation	(4.8)	(198.3)	(17.8)	(3.1)	–	–	(224.0)
Impairment loss	–	(22.6)	–	–	–	–	(22.6)
Transfers(1)	–	1.7	21.4	–	–	(23.1)	–
Foreign exchange movements	–	95.5	–	–	–	–	95.5
Carrying amount at end of year	90.8	2,588.4	68.2	5.9	–	15.7	2,769.0

(1) Transfers relate to amounts which were disclosed within work in progress at 30 June 2011 which were capitalised during the 2012 financial year.

(b) Decreases in value of property, plant and equipment

During the year, changes in the use of certain assets resulted in asset devaluations and subsequent accelerated depreciation totalling $1.0 million (2012: $3.7 million). This accelerated depreciation expense has been included in depreciation and amortisation expense in the consolidated statement of profit or loss.

In addition, the Group recognised a loss on disposal of property, plant and equipment (largely aircraft and aeronautic related assets) of $2.0 million (2012: $1.0 million). This loss has been included in other expenses from ordinary activities in the consolidated statement of profit or loss.

In the prior year, the Group recognised write-downs of aircraft and aeronautic related assets totalling $18.5 million, and impairment losses of aircraft and aeronautic related assets of $4.1 million. These expenses were included in other expenses from ordinary activities in the consolidated statement of profit or loss.

(c) Non-current assets pledged as security

Refer to note 24(b) for information on non-current assets pledged as security by the Group.

22. Intangible assets

2013	Goodwill $m	Software $m	Patents and trademarks $m	Brand names $m	Customer contracts and relationships $m	Work in progress – contract intangible $m	Work in progress – other $m	Total $m
At cost	**145.5**	**206.7**	**0.5**	**4.6**	**20.8**	**15.9**	**19.5**	**413.5**
Accumulated amortisation and impairment	**–**	**(82.6)**	**(0.5)**	**–**	**(0.8)**	**–**	**–**	**(83.9)**
Carrying amount at end of year	**145.5**	**124.1**	**–**	**4.6**	**20.0**	**15.9**	**19.5**	**329.6**

2012	Goodwill $m	Software $m	Patents and trademarks $m	Brand names $m	Customer contracts and relationships $m	Work in progress – contract intangible $m	Work in progress – other $m	Total $m
At cost	43.8	88.5	0.5	–	–	–	26.2	159.0
Accumulated amortisation and impairment	–	(57.5)	(0.5)	–	–	–	–	(58.0)
Carrying amount at end of year	43.8	31.0	–	–	–	–	26.2	101.0

(a) Reconciliations

Reconciliations of the carrying amounts for each class of intangible asset are set out below:

2013	Goodwill $m	Software $m	Patents and trademarks $m	Brand names $m	Customer contracts and relationships $m	Work in progress – contract intangible $m	Work in progress – other $m	Total $m
Carrying amount at beginning of year	**43.8**	**31.0**	**–**	**–**	**–**	**–**	**26.2**	**101.0**
Acquisitions through business combinations	**101.7**	**0.2**	**–**	**4.6**	**20.8**	**–**	**–**	**127.3**
Other additions	**–**	**96.0**	**–**	**–**	**–**	**15.9**	**15.2**	**127.1**
Disposals	**–**	**(0.2)**	**–**	**–**	**–**	**–**	**–**	**(0.2)**
Amortisation	**–**	**(24.8)**	**–**	**–**	**(0.8)**	**–**	**–**	**(25.6)**
Impairment loss	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Transfers[1]	**–**	**21.9**	**–**	**–**	**–**	**–**	**(21.9)**	**–**
Carrying amount at end of year	**145.5**	**124.1**	**–**	**4.6**	**20.0**	**15.9**	**19.5**	**329.6**

(1) Transfers relate to amounts which were disclosed within work in progress at 30 June 2012 which were capitalised during the 2013 financial year.

22. Intangible assets (continued)

(a) Reconciliations (continued)

2012	Goodwill $m	Software $m	Patents and trademarks $m	Brand names $m	Customer contracts and relationships $m	Work in progress – contract intangible $m	Work in progress – other $m	Total $m
Carrying amount at beginning of year	43.8	24.6	0.7	–	–	–	12.0	81.1
Acquisitions through business combinations	–	–	–	–	–	–	–	–
Other additions	–	20.4	–	–	–	–	23.9	44.3
Disposals	–	–	(0.1)	–	–	–	–	(0.1)
Amortisation	–	(22.7)	(0.2)	–	–	–	–	(22.9)
Impairment loss	–	(1.0)	(0.4)	–	–	–	–	(1.4)
Transfers(1)	–	9.7	–	–	–	–	(9.7)	–
Carrying amount at end of year	43.8	31.0	–	–	–	–	26.2	101.0

(1) Transfers relate to amounts which were disclosed within work in progress at 30 June 2011 which were capitalised during the 2012 financial year.

(b) Decreases in value of intangible assets

During the current year changes in the Group's use of certain assets resulted in asset devaluations and subsequent accelerated amortisation expense totalling $5.3 million (2012: $10.7 million). This expense has been included in depreciation and amortisation expense in the consolidated statement of profit or loss.

During the prior year, the Group recognised write-downs and disposal of intangible assets totalling $1.4 million. This loss was included in other expenses from ordinary activities in the consolidated statement of profit or loss.

(c) Indefinite life intangible asset

The brand name acquired as part of the acquisition of Skywest Airlines Pte Ltd has an indefinite useful life. This assessment was made on the basis that the Group has the ability to maintain the brand and the legal right to use the brand to generate future cash inflows through licensing or sale agreements.

(d) Impairment testing

The Group's CGUs are identified according to operating segments.

The Group has goodwill with a carrying value of $145.5 million (2012: $43.8 million) as per note 22(a). The Group also has an indefinite life brand name with a carrying value of $4.6 million (2012: $nil) as per note 22(a). Goodwill and brand names are allocated entirely to the Domestic CGU.

The recoverable amount is determined based on value-in-use calculations. The following key assumptions were used in determining the value-in-use:

	Growth rate(1)		Discount rate(2)	
CGU	2013 %	2012 %	2013 %	2012 %
Domestic operations	**3.5**	3.5	**8.96**	9.01
International operations	**3.5**	3.5	**9.73**	9.90

(1) Weighted average growth rate used to extrapolate cash flows beyond the budget period.

(2) Post-tax discount rate applied to the cash flow projections. The equivalent pre-tax rates were for 2013: Domestic 11.1% (2012: 11.3%) and International 12.3% (2012: 12.6%).

22. Intangible assets (continued)

(d) Impairment testing (continued)

These calculations use cash flow projections based upon financial budgets covering a three year period. Cash flows beyond a three year period are calculated using the estimated growth rates stated above. The cash flows are based on management's expectations regarding the market, including guest numbers, revenue yield and associated operating costs. The weighted average growth rates used are consistent with forecasts included in industry forecasts. The method used to determine the discount rate was 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.

Descriptions of other key assumptions underlying the cash flow projections include:

- The fuel price has been set with regard to the Brent forward curve adjusted for refining margins and hedge positions;
- The AUD/USD exchange rate is set with regard to the spot; and
- Load factors and average net fares were set having regard to historical experience, market conditions, fleet plans and competitor analysis over the forthcoming years.

No impairment losses were identified (2012: nil) as a result of the impairment testing performed at the CGU level.

The Group has considered all reasonable changes in key assumptions, including growth rate and discount rate, and through sensitivity analysis concluded that there is no impairment from these changes in assumptions used in the value-in-use calculations.

23. Trade and other payables

	2013 $m	2012 $m
Current		
Trade payables and accruals	**570.6**	494.4
Other payables – related parties	**9.8**	11.1
	580.4	505.5
Non-current		
Other payables	**6.6**	2.8

Trade and other payables are non interest-bearing.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 35.

The Company has entered into a Deed of Cross Guarantee (Deed) with certain subsidiaries as described in note 42. Under the terms of the Deed, the Company has guaranteed the repayment of all current and future creditors in the event any of the entities party to the Deed are wound up. Details of the consolidated statement of financial position of all parties to the Deed are set out in note 42.

24. Interest-bearing liabilities

	2013 $m	2012 $m
Current		
Loans (aeronautic finance facilities) – secured(1)	**263.4**	254.0
Loans (bank) – secured(1)	**99.0**	–
Loan from associate – unsecured	**9.3**	–
Finance lease liabilities	**1.8**	–
	373.5	254.0
Non-current		
Loans (aeronautic finance facilities) – secured(1)	**1,493.1**	1,420.1
Finance lease liabilities	**23.3**	–
	1,516.4	1,420.1

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

24. Interest-bearing liabilities (continued)

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Year of maturity(1)	Nominal interest Rate 2013	Nominal interest Rate 2012	Face value $m 2013	Face value $m 2012	Carrying amount $m 2013	Carrying amount $m 2012
Secured bank loans								
– Aircraft	AUD	2013–2020	**3.37%–6.32%**	3.97%–6.32%	**700.7**	840.7	**696.0**	834.9
– Aircraft	USD	2013–2024	**0.70%–6.18%**	0.79%–4.47%	**1,096.8**	867.1	**1,060.5**	839.2
– Other	AUD	2013	**6.58%–6.60%**	–	**100.0**	–	**99.0**	–
Loan from associate	NZD	2013	**6.03%**	–	**9.3**	–	**9.3**	–
Finance leases	AUD	2014–2047	**5.00%–10.45%**	–	**25.1**	–	**25.1**	–
					1,931.9	1,707.8	**1,889.9**	1,674.1

(1) Based on the calendar year.

For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 35.

(b) Assets pledged as security

The aeronautic finance facility liabilities are secured over assets purchased and issued capital of the following Group subsidiaries:

- 737 2012 No.1 Pty Limited;
- 737 2012 No.2 Pty Limited;
- VA Leaseco No.4 Pty Limited;
- VBNC1 Pty Limited;
- VBNC2 Pty Limited;
- VBNC3 Pty Limited;
- VBNC4 Pty Limited;
- VBNC5 Pty Limited;
- VBNC9 Pty Limited;
- VB 700 2009 Pty Limited;
- VB LH 2010-11 No. 1 Pty Limited;
- VB LH 2010-11 No. 2 Pty Limited;
- VB LH 2008 No.1 Pty Limited;
- VB LH 2008 No.2 Pty Limited;
- Capital Lease Australia Portfolio One Pty Limited; and
- Skywest Airlines (S) Pte Ltd.

The bank loan is secured over the Company's registered office.

The carrying amounts of assets pledged as security for current and non-current interest-bearing liabilities are:

Non-current	2013 $m	2012 $m
Fixed charge		
Aircraft and aeronautic related assets	**2,618.2**	2,337.8
Buildings	**60.6**	–
	2,678.8	2,337.8

24. Interest-bearing liabilities (continued)

(c) Financing arrangements

Unrestricted access was available at reporting date to the following lines of credit:

	2013 $m	2012 $m
Total facilities available at reporting date:		
Standby letters of credit	**74.5**	45.4
Bank guarantees	**9.8**	5.4
Aeronautic finance facilities	**1,812.0**	1,902.2
Bank loan	**100.0**	–
Loan from associate	**12.6**	–
Finance lease liabilities	**25.1**	–
	2,034.0	1,953.0
Facilities utilised at reporting date:		
Standby letters of credit	**54.8**	30.1
Bank guarantees	**6.2**	4.1
Aeronautic finance facilities	**1,797.5**	1,707.8
Bank loan	**100.0**	–
Loan from associate	**9.3**	–
Finance lease liabilities	**25.1**	–
	1,992.9	1,742.0
Facilities not utilised at reporting date:		
Standby letters of credit	**19.7**	15.3
Bank guarantees	**3.6**	1.3
Aeronautic finance facilities	**14.5**	194.4
Bank loan	**–**	–
Loan from associate	**3.3**	–
Finance lease liabilities	**–**	–
	41.1	211.0

(i) Standby letters of credit

The standby letter of credit facility is a committed facility available to be drawn down over the next year (2012: over the next year). The amount of the standby letters of credit facilities can be increased by the provision of additional security. The standby letters of credit are secured over at-call deposits of an equivalent amount. The weighted average interest rate on the facility at 30 June 2013 is 0.75% (2012: 0.64%).

(ii) Bank guarantees

The bank guarantees are secured over deposits of an equivalent amount. The amount of the bank guarantee facilities can be increased by the provision of additional security. The weighted average interest rate on the facility at 30 June 2013 is 1.24% (2012: 0.60%).

(iii) Aeronautic finance facilities

The aeronautic finance facilities are available to assist the Group to finance purchases of aeronautic related assets. The facilities are secured over assets purchased and issued capital of the subsidiaries listed in note 24(b). The weighted average interest rate on these facilities at 30 June 2013 is 3.20% (2012: 3.89%).

(iv) Bank loan

This secured bank loan is a bridge loan facility issued in two tranches to Virgin Australia Airlines Pty Ltd, a consolidated entity. The facility is secured over the Company's registered office with a carrying amount of $60.6 million (2012: not applicable). The weighted average interest rate on the loan at 30 June 2013 is 6.59% (2012: nil).

24. Interest-bearing liabilities (continued)

(c) Financing arrangements (continued)

(v) Loan from associate (Virgin Samoa Limited)

The loan from associate is a revolving loan facility advanced to Virgin Australia Airlines Pty Ltd, a controlled entity. The loan is unsecured. The interest rate on the facility at 30 June 2013 is 6.03% (2012: nil).

(vi) Finance lease liabilities

The Group leases buildings and aircraft and aeronautical related assets under finance leases. Finance lease liabilities are payable as follows:

	Future minimum lease payments		Interest		Present value of minimum lease payments	
	2013 $m	2012 $m	2013 $m	2012 $m	2013 $m	2012 $m
Within one year	**4.4**	–	**2.6**	–	**1.8**	–
One year or later and no later than five years	**10.5**	–	**9.7**	–	**0.8**	–
Later than five years	**72.1**	–	**49.6**	–	**22.5**	–
	87.0	–	**61.9**	–	**25.1**	–

During 2013 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.

Upon the acquisition of Skywest Airlines Pte Ltd (formerly Skywest Airlines Ltd), the Group acquired finance leases for aircraft and aeronautic related assets. These leases have no purchase options or escalation clauses. These leases expire in the next two years and one of these has an extension option of a minimum of 36 months at a reduced rent; then for a further minimum term of six months.

25. Provisions

	Note	2013 $m	2012 $m
Current			
Employee benefits	38	**92.3**	81.1
Maintenance		**7.1**	23.0
Unfavourable contract terms		**2.2**	–
Other		**0.4**	–
		102.0	104.1
Non-current			
Employee benefits	38	**11.9**	9.5
Maintenance		**37.8**	16.4
Unfavourable contract terms		**2.6**	–
Other		**1.3**	–
		53.6	25.9

25. Provisions (continued)

(a) Movements in provisions

Movements in each class of provision during the financial period, except for employee benefits are set out below:

2013	Maintenance $m	Unfavourable contract terms $m	Other $m	Total $m
Opening carrying value	**39.4**	**–**	**–**	**39.4**
Assumed in a business combination	**15.1**	**5.3**	**1.8**	**22.2**
Provisions made	**23.5**	**–**	**–**	**23.5**
Provisions used	**(13.0)**	**(0.5)**	**(0.1)**	**(13.6)**
Provisions re-alignment[(1)]	**(20.1)**	**–**	**–**	**(20.1)**
Closing carrying value	**44.9**	**4.8**	**1.7**	**51.4**

(1) Refer to note 5(a) for further details on the related change in accounting estimate.

(b) Provision for maintenance

Provision is made for the estimated future costs of major maintenance of leased engines, landing gear and auxiliary power units, calculated by reference to the current rectification cost and the number of hours or cycles operated during the period, and the availability of spare aeronautic related parts to be utilised. Provision for the estimated future costs of major maintenance of leased airframes is recognised over the term of the lease. Provision is also made for end of lease obligations to return the aircraft in the condition specified by the lessor. Assumptions for the provision includes expected use of the aircraft during the lease term and forecasted contractual maintenance rates. CPI was applied to certain current labour and market costs and the provisions are discounted as specified in note 3(q). The nominal discount rate applied was 8.5% (2012: 8.1%).

(c) Provision for unfavourable contract terms

As part of the acquisition of Skywest Airlines Pte Ltd, the Group recognised a provision for unfavourable aircraft lease terms. These lease agreements were held with former related parties of Skywest Airlines Pte Ltd and are not considered to be at normal market terms. These lease agreements expire between April 2014 and March 2017. The prospective unfavourable portion of the rental payments associated with these lease agreements have been valued on an incremental cash flow basis.

(d) Other provisions

Other provisions are largely comprised of provisions for property make-good clauses contained in operating leases of premises. These provisions were recognised as part of the acquisition of Skywest Airlines Pte Ltd. These lease agreements expire between 2014 and 2022.

26. Unearned revenue

	2013 $m	2012 $m
Current		
Unearned passenger revenue	**509.1**	462.0
Credit vouchers	**14.1**	30.7
Other unearned revenue	**212.9**	199.2
	736.1	691.9

27. Other liabilities

	2013 $m	2012 $m
Current		
Future lease payments	**0.3**	–
Other	**0.8**	–
	1.1	–
Non-current		
Future lease payments	**6.9**	–

During the current year, a number of sale and leaseback transactions took place which resulted in gains on sale being deferred against future lease payments. See note 3(m)(iv) which discusses the Group's accounting policy on these transactions.

28. Deferred tax liabilities

	Note	2013 $m	2012 $m
The balance comprises temporary differences attributable to:			
Amounts recognised in profit or loss			
Depreciation		**224.2**	181.1
Other		**62.9**	44.8
		287.1	225.9
Set-off of deferred tax liabilities pursuant to set-off provisions	20	**(287.1)**	(217.2)
Net deferred tax liabilities		**–**	8.7
Movements			
Balance at beginning of year		**225.9**	227.2
Recognised in profit or loss		**61.2**	(1.3)
Recognised in equity and other comprehensive income		**–**	–
Closing balance		**287.1**	225.9

29. Share capital

	2013 $m	2012 $m
Ordinary shares, fully paid	**814.8**	655.6
Treasury shares held by the KEPP[(1)] Trust	**(20.1)**	(22.3)
	794.7	633.3

(1) The trustee for the Key Employee Performance Plan (KEPP) holds a number of shares in VAH, which may be transferred to employees of the Group in accordance with the rules of the Plan. On consolidation, shares held for the KEPP are offset against contributed equity. During the year ended 30 June 2013, 6.5 million (2012: nil) of KEPP shares worth $2.2 million were issued to employees (refer note 29(c)).

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid.

29. Share capital (continued)

(a) Movements in ordinary share capital

	Number of Shares (m)
Balance at 1 July 2011	2,190.0
Issue of shares by KEPP	–
Issue of shares for cash	–
Issue of shares in business combination	–
Balance at 30 June 2012	2,190.0
Balance at 1 July 2012	**2,190.0**
Issue of shares by KEPP	**6.5**
Issue of shares for cash	**258.1**
Issue of shares in business combination (refer note 7(a))	**112.9**
Balance at 30 June 2013	**2,567.5**

(b) Terms and conditions of ordinary shares

With the exception of shares held in trust under the KEPP, holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

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.

At 30 June 2013, the trustee for the KEPP holds 13.7 million (2012: 20.2 million) shares. A participating employee is not entitled to any income or other rights (including voting rights) derived from any shares acquired by the trustee under KEPP unless and until the shares are transferred to the employee for nil consideration, following satisfaction of any vesting conditions – refer to note 39.

(c) Issue of ordinary shares

On 1 July 2012, upon vesting of the employee share plans, 6.5 million performance rights represented by shares were issued from the KEPP Trust, a consolidated entity of the Group, resulting in an increase in share capital of $2.2 million.

On 16 November 2012, Singapore Airlines Limited subscribed for 245.6 million shares in VAH at a price of $0.4288 per share, resulting in an increase in share capital of $105.3 million.

On 19 April 2013, the Group completed payment of the Scheme Cash and Securities consideration for the acquisition of 100% of the issued share capital in Skywest Airlines Pte Ltd. This included the issue of 112.9 million new shares in VAH, resulting in an increase in share capital of $48.5 million. Details of this acquisition are disclosed in note 7.

On 22 April 2013, Singapore Airlines Limited subscribed for 12.5 million (2012: nil) shares in VAH at a price of $0.4288 per share resulting in an increase in the share capital of $5.4 million (2012: $nil).

30. Reserves

(a) Nature and purpose of reserves

(i) Foreign currency translation reserve

Exchange differences arising on translation of foreign operations are taken to the foreign currency translation reserve, as described in note 3(b). The reserve is recognised in profit or loss when the net investment is disposed of.

(ii) Hedging reserve – cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that is recognised directly in equity, as described in note 3(i). Amounts are recognised in profit or loss when the associated hedged transaction affects profit or loss, or recognised as part of the acquisition price of property, plant and equipment.

(iii) Share-based payments reserve

The share-based payments reserve is used to recognise the grant date fair value of options and performance rights issued as described in note 3(p)(v).

31. Dividends

(a) Dividends

No dividends were declared and paid by the Company since the end of the previous financial period. In the prior financial year, the Company distributed shares in VAH to shareholders on a pro-rata basis by way of an in-specie dividend with a nominal value of $2,210. The in-specie dividend was paid to give effect to the transaction that separated the international business from VAH.

No final dividend has been declared or paid for 2013 (2012: nil). No dividends have been declared subsequent to 30 June 2013.

(b) Franked dividends

	2013 $m	2012 $m
Dividend franking account		
Franking credits available for subsequent financial years based on a tax rate of 30% (2012: 30%)	**76.4**	76.4
Exempting franking credits account based on a tax rate of 30%[1]	**4.2**	–

(1) The Company acquired these exempting franking credits upon acquisition of the Skywest Airlines Pte Ltd group of entities. Details of this acquisition are disclosed in note 7.

The above available amounts are based on the balance of the dividend franking account as at the end of the financial year, adjusted for:

a) franking credits that will arise from the payment of the amount of the current tax liabilities;

b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date;

c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date; and

d) franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon the ability to declare dividends. In accordance with the tax consolidation legislation, the Company as the head entity in the Australian tax-consolidated group has assumed the benefit of the above franking credits.

The Group's New Zealand subsidiary, Virgin Australia Airlines (NZ) Ltd has franking credits totaling NZD $7.6 million as at 30 June 2013 (2012: NZD $7.6 million). The ability to utilise the franking credits is dependent upon the ability to declare dividends.

32. Capital expenditure commitments

	2013 $m	2012 $m
Commitments payable for the acquisition of property, plant and equipment, including aircraft and aeronautic related assets, contracted for at the reporting date but not recognised as liabilities	**3,348.1**	2,075.6

33. Operating leases

(a) Operating leases as lessee

	2013 $m	2012 $m
Non-cancellable operating lease expense commitments		
Commitments in relation to operating leases contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	**339.5**	266.9
One year or later and no later than five years	**1,326.6**	1,099.4
Later than five years	**1,338.0**	1,162.3
	3,004.1	2,528.6

33. Operating leases (continued)

(a) Operating leases as lessee (continued)

The Group leases property, plant and equipment, principally aircraft, under non-cancellable operating leases expiring from one to twelve years from 30 June 2013 (2012: one to twelve years). Aircraft lease payments are payable in US dollars. There are options on some leases to renew the leases after 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.

(b) Operating leases as lessor

The Group leases certain aircraft to other parties. These leases are for a period of five years with an option to extend for a further 12 months. There is a second option to extend for a further 12 months, post the initial option period and a third option to extend for a further 12 months post the initial two option periods. The lease payments are receivable monthly in US dollars. There are options on some leases to renew the leases after 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.

At the end of the reporting period, the future minimum lease payments receivable under these non-cancellable leases are as follows:

	2013 $m	2012 $m
Within one year	**15.5**	14.1
One year or later and no later than five years	**33.0**	44.7
	48.5	58.8

34. Contingent liabilities and contingent assets

Details of contingent liabilities and contingent assets where the possibility of future payments/receipts is not considered remote are set out below, in addition to details of contingent liabilities and contingent assets, which although considered remote, the directors consider should be disclosed.

The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

(a) Contingent liabilities not considered remote

(i) Bank guarantees and letters of credit

The Group has provided bank guarantees and standby letters of credit to third parties as guarantees of payment for fuel and fulfilment of obligations under government assistance agreements.

The amount of bank guarantees and standby letters of credit issued as at the end of the financial year was $61.0 million (2012: $34.2 million).

(b) Contingent liabilities considered remote

(i) Government assistance

Some government assistance received may be refundable if agreed performance criteria are not achieved. The performance periods of the grants are five years from 1 October 2008, and five years from 1 January 2009. The directors are of the opinion that no amounts will be refundable under these grants and hence no provision for refund has been recognised.

35. Financial instruments

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.

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 are to be carried out within these guidelines approved by the Board. 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.

35. Financial instruments (continued)

(a) Market risk

Market risk is the risk that changes in market prices, such as fuel prices, foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market exposures, within tolerances.

The Group enters into derivatives, and also incurs financial liabilities, in order to manage market risks relating to fuel prices, foreign exchange rates and interest rates. All such transactions are carried out within the guidelines set by the Board in the Treasury Risk Management Policy. Generally the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

(i) Fuel price risk

Price risk arises on the Group's exposure to jet fuel prices. 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 decline in the price of fuel.

Risk management

Group Treasury is responsible for managing this exposure by using commodity swap, option contracts and other fuel related derivative contracts. These contracts are designated at Group level as hedges of price risk on specific volumes of future jet fuel consumption. The Group's risk management policy is to hedge, subject to limits determined by the Board, anticipated jet fuel consumption for subsequent financial periods. Realised gains or losses on these contracts arise due to differences between the actual fuel prices on settlement, the forward rates of the derivative contracts and the cost of option premiums paid.

During the year, the net gain arising from fuel hedging activities for the Group was $42.3 million (2012: loss of $27.1 million). Of this net amount, a loss of $6.8 million (2012: gain of $11.6 million) represents the realised element of the hedges which has been recognised in fuel expense, and a gain of $49.1 million (2012: loss of $38.7 million) represents the unrealised element of the hedges (including changes in option time value) and realised option premium which has been recognised in ineffective cash flow hedges and non-designated derivatives expense.

Sensitivity analysis

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 (2012: AUD 30) per barrel (bbl) increase/(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 analysis assumes that all other variables remain constant and based on the designated hedge relationship as at the reporting dates. The analysis is performed on the same basis for 2012.

		AUD 30/bbl increase		AUD 30/bbl decrease	
	Carrying amount $m	Profit/(loss) $m	Equity $m	Profit/(loss) $m	Equity $m
2013					
Net financial asset					
– Derivative asset	**54.9**	**180.7**	**18.6**	**(140.5)**	**(18.3)**
2012					
Net financial liabilities					
– Derivative liability	(35.4)	40.8	125.9	(0.4)	(167.8)

35. Financial instruments (continued)

(a) Market risk (continued)

(ii) Foreign exchange risk

Exposure to foreign exchange risk

The Group undertakes transactions in US dollars, including the cost of purchasing fuel, aircraft, aircraft lease payments and the sale of airline passenger tickets. The Group also undertakes transactions in New Zealand dollars.

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

	2013			2012		
	AUD $m	USD $m	NZD $m	AUD $m	USD $m	NZD $m
Cash and cash equivalents	**0.1**	**147.4**	**28.9**	0.1	139.2	31.9
Trade receivables	**–**	**2.2**	**4.2**	–	12.1	0.3
Other receivables	**0.9**	**12.8**	**–**	–	21.1	0.1
Other financial assets	**–**	**43.8**	**–**	–	52.2	–
Trade and other payables	**(12.3)**	**(67.1)**	**(3.4)**	(18.2)	(60.2)	(8.5)
Gross statement of financial position exposure	**(11.3)**	**139.1**	**29.7**	(18.1)	164.4	23.8
Forward exchange contracts[1]	**–**	**587.6**	**–**	–	301.2	–

(1) Relates to forecast cash flow exposure pertaining to operating expenses principally fuel and aircraft lease rentals.

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
AUD	2013	2012	2013	2012
USD	**1.0313**	1.0378	**0.9275**	1.0191
NZD	**1.2548**	1.2851	**1.1871**	1.2771

Risk management

In order to protect against exchange rate movements, the Group enters into Australian dollar denominated fuel contracts as well as forward exchange contracts and option contracts to purchase US dollars. These contracts are hedging 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.

During the year, the net loss arising from foreign exchange hedging activities for the Group was $7.4 million (2012: loss of $34.7 million) as a result of the Australian dollar appreciating above the average hedged price. This net loss of $7.4 million (2012: loss of $35.0 million) represents the realised element of the hedges which has been recognised in the relevant expenditure category which the contract was hedging. No gains or losses (2012: gain of $0.3 million) were recognised in respect of the unrealised element of hedges and non-designated derivatives (including changes in option time value) and realised option premium in ineffective cash flow hedges and non-designated derivatives expense.

35. Financial instruments (continued)

(a) Market risk (continued)

(ii) Foreign exchange risk (continued)

Sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and liabilities to a reasonably possible change in the exchange rate to the US dollar. A 10% (2012: 10%) appreciation/(depreciation) of the AUD against the USD would have increased/(decreased) equity and profit or loss (before tax) by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2012.

		USD 10% increase in AUD		USD 10% decrease in AUD	
	Carrying amount $m	Profit/(loss) $m	Equity $m	Profit/(loss) $m	Equity $m
2013					
Financial assets					
– Non-derivative asset	**206.2**	**(18.7)**	**–**	**22.9**	**–**
– Derivative asset	**58.7**	**0.4**	**(50.8)**	**(1.3)**	**65.4**
Financial liabilities					
– Non-derivative liability	**(67.1)**	**6.1**	**96.6**	**(7.5)**	**(118.1)**
		(12.2)	**45.8**	**14.1**	**(52.7)**
2012					
Financial assets					
– Non-derivative asset	224.6	(20.4)	–	25.0	–
Financial liabilities					
– Non-derivative liability	(60.2)	5.5	76.7	(6.7)	(93.8)
– Derivative liability	(2.3)	0.2	(26.7)	1.3	30.0
		(14.7)	50.0	19.6	(63.8)

(iii) Interest rate risk

Exposure to interest rate risk

The Group holds both interest-bearing assets and interest-bearing liabilities; therefore, the Group's income and operating cash flows are subject to changes in market interest rates.

The Group's main interest rate risk arises from finance leases, short-term and long-term borrowings. 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.

At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments was:

	Carrying amount	
	2013 $m	2012 $m
Fixed rate instruments		
Financial assets	**278.7**	579.1
Financial liabilities	**(699.3)**	(485.8)
	(420.6)	93.3
Variable rate instruments		
Financial assets	**260.6**	181.6
Financial liabilities	**(1,190.6)**	(1,222.0)
	(930.0)	(1,040.4)

35. Financial instruments (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

Risk management

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps to hedge part of this exposure. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts. The maturity profiles and settlement dates of the swaps exactly match the amortisation profile and repayment dates on the underlying loans.

During the year, the net loss arising from interest rate hedging activities for the Group was $6.0 million (2012: loss of $4.5 million). This is a result of actual interest rates being lower than the average hedged rates. This net loss represents the effective portion of the hedges which has been recognised in finance costs – interest and finance charges paid/payable.

Sensitivity analysis

An analysis demonstrating the sensitivity of financial instruments to a reasonably possible change in interest rates is provided in the table below.

Fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model; therefore a change in interest rates at the reporting date would not affect profit or loss.

Variable rate instruments

The Group accounts for variable rate financial assets and financial liabilities at amortised cost using the effective interest rate method.

A 100 basis point increase/(decrease) in interest rates (2012: 100 basis points) would have increased/(decreased) equity and profit or loss (before tax) by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2012.

		100 bp increase		100 bp decrease	
	Carrying amount $m	Profit/(loss) $m	Equity $m	Profit/(loss) $m	Equity $m
2013					
Fixed rate instruments					
Interest rate swaps	**(9.3)**	**–**	**2.7**	**–**	**(2.8)**
Variable rate instruments					
Financial assets	**260.6**	**2.6**	**–**	**(2.6)**	**–**
Financial liabilities	**(1,190.6)**	**(11.9)**	**–**	**11.9**	**–**
		(9.3)	**2.7**	**9.3**	**(2.8)**

		100 bp increase		100 bp decrease	
	Carrying amount $m	Profit/(loss) $m	Equity $m	Profit/(loss) $m	Equity $m
2012					
Fixed rate instruments					
Interest rate swaps	(14.2)	–	4.9	–	(5.1)
Variable rate instruments					
Financial assets	181.6	1.8	–	(1.8)	–
Financial liabilities	(1,222.0)	(12.2)	–	12.2	–
		(10.4)	4.9	10.4	(5.1)

Any gains or losses deferred in equity in respect of effective hedges are recycled to profit or loss to match against the underlying interest expense on the variable rate instrument.

35. Financial instruments (continued)

(a) Market risk (continued)

(iv) Equity price risk

In the prior financial year and for part of the current financial year, the Group was exposed to equity price risk with respect to equity warrant and conversion options as a result of entering into a convertible loan agreement with Skywest Airlines Ltd. Following the Group's acquisition of the Skywest Group in April 2013 this transaction was eliminated as a pre-existing relationship (refer note 7); therefore, at 30 June 2013, the carrying value of the equity warrants was nil (2012: $0.1 million). As a result equity price risk is no longer considered a key risk for the Group.

In the prior year, Skywest Airlines Ltd (Skywest) was listed on the Australian Securities Exchange. A 10% increase in the share price of Skywest at the prior reporting date would have increased profit or loss by $0.2 million (before tax). A 10% decrease in the share price of Skywest at the prior reporting date would have decreased profit or loss by less than $0.1 million (before tax). This assumed all other variables remained constant.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from trade debtor counterparties (travel agents, industry settlement organisations and credit provided direct to customers), other counterparties, deposits and unrealised gains on derivative financial instruments.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or counterparty. Significant loans and receivables credit risk are assessed based on trading performance of the counterparty. 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.

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 appropriate credit history. The Group continuously monitors counterparty credit limits on defaults, incorporating this information into credit risk controls.

Investments, deposits and derivatives

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 credit rating.

Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

		Carrying amount	
	Note	2013 $m	2012 $m
Cash and cash equivalents	13	**580.5**	802.6
Trade and other receivables	14	**188.7**	165.7
Commodity contracts used for hedging: assets	16	**54.9**	0.1
Forward exchange contracts used for hedging: assets	16	**58.7**	0.5
Equity warrants	16	**–**	0.1
Other financial assets	17	**46.0**	55.8
		928.8	1,024.8

35. Financial instruments (continued)

(b) Credit risk (continued)

Impairment losses

The ageing of the Group's trade and other receivables at the reporting date was:

	Gross 2013 $m	Impairment 2013 $m	Gross 2012 $m	Impairment 2012 $m
Not past due	**168.1**	**–**	163.4	(4.1)
Past due 1-30 days	**9.1**	**–**	2.6	–
Past due 31-60 days	**6.0**	**–**	1.0	–
61+ days	**5.8**	**(0.3)**	2.9	(0.1)
	189.0	**(0.3)**	169.9	(4.2)

The Group has established a provision for doubtful debts for trade and other receivables that represents its estimate of incurred losses. The main components of this provision are a specific loss component that relates to individually significant exposures.

The movement in the Group's provision for doubtful debts in respect of trade and other receivables during the year was as follows:

	2013 $m	2012 $m
Balance at 1 July	**4.2**	0.1
Impairment loss recognised	**2.0**	4.1
Write-off of bad debts	**(5.9)**	–
Balance at 30 June	**0.3**	4.2

Impairment losses/gains are included in other expenses in the consolidated statement of profit or loss.

The provision for doubtful debts at 30 June 2013 of $0.3 million (2012: $4.2 million) relates to specific receivables that are considered doubtful.

The provision for doubtful debts account in respect of trade and other receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly. At 30 June 2013 the Group does not have any collective impairment on its trade and other receivables (2012: no collective impairment).

Of the trade and other receivables as at 30 June 2013, deemed neither past due nor impaired, there are no customers who represent more than 5% of the total balance of trade and other receivables. The average credit period on revenue is 16 days. Upon default the credit of customers immediately ceases. No interest is charged on trade receivables.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Risk management

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding as required and the ability to close-out market positions if necessary. Due to the dynamic nature of the underlying businesses, Group Treasury aims at maintaining flexibility in funding by keeping adequate liquidity available.

The Group aims to ensure that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot be predicted, such as natural disasters.

The Group also maintains various lines of credit, which are detailed in note 24.

The Group has contractual commitments for the acquisition of property, plant and equipment, which are detailed in note 32.

35. Financial instruments (continued)

(c) Liquidity risk (continued)

Aircraft financing

During the year, the Group undertook a number of aircraft and related financing transactions. These transactions included:

- Sale and leaseback of three Boeing 737-800 aircraft;
- Sale and leaseback of one Boeing 777-300 engine; and
- Mortgaging of five Boeing 737-800 aircraft.

During the prior year, the Group undertook a number of aircraft financing transactions. These transactions included:

- Sale and leaseback of eight Boeing 737-800 aircraft and three Embraer E-190 aircraft;
- Mortgaging of seven owned Boeing 737-800 aircraft; and
- Sale and leaseback of aeronautic related assets.

Exposure to liquidity risk

The following are the contractual maturities of financial liabilities including estimated interest payments and including the impact of netting agreements:

2013	Carrying amount $m	Contractual cash flows $m	Less than 1 year $m	1-2 years $m	2-5 years $m	More than 5 years $m
Non-derivative financial liabilities						
Secured loans	**(1,855.5)**	**(2,138.8)**	**(419.6)**	**(332.3)**	**(695.3)**	**(691.6)**
Loan from associate	**(9.3)**	**(9.3)**	**(9.3)**	**–**	**–**	**–**
Finance lease liabilities	**(25.1)**	**(87.0)**	**(4.4)**	**(2.8)**	**(7.7)**	**(72.1)**
Trade and other payables	**(587.0)**	**(587.0)**	**(580.4)**	**(6.6)**	**–**	**–**
Derivative financial assets and liabilities						
Commodity contracts used for hedging:						
– Inflow	**54.9**	**54.9**	**47.9**	**7.0**	**–**	**–**
Forward exchange contracts used for hedging:						
– Inflow	**58.7**	**58.7**	**48.9**	**9.8**	**–**	**–**
Interest rate swaps used for hedging:						
– Outflow	**(9.3)**	**(10.2)**	**(6.0)**	**(3.3)**	**(0.9)**	**–**
	(2,372.6)	**(2,718.7)**	**(922.9)**	**(328.2)**	**(703.9)**	**(763.7)**

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

35. Financial instruments (continued)

(c) Liquidity risk (continued)

Exposure to liquidity risk (continued)

2012	Carrying amount $m	Contractual cash flows $m	Less than 1 year $m	1-2 years $m	2-5 years $m	More than 5 years $m
Non-derivative financial liabilities						
Secured loans	(1,707.8)	(1,948.9)	(310.0)	(261.4)	(688.6)	(688.9)
Loan from associate	–	–	–	–	–	–
Finance lease liabilities	–	–	–	–	–	–
Trade and other payables	(508.3)	(508.3)	(505.5)	(2.8)	–	–
Derivative financial assets and liabilities						
Commodity contracts used for hedging:						
– Outflow	(35.5)	(35.5)	(33.3)	(2.2)	–	–
Forward exchange contracts used for hedging:						
– Outflow	(2.8)	(2.8)	(2.8)	–	–	–
Interest rate swaps used for hedging:						
– Outflow	(14.2)	(16.5)	(7.3)	(5.5)	(3.7)	–
	(2,268.6)	(2,512.0)	(858.9)	(271.9)	(692.3)	(688.9)

As at 30 June 2012, the Group has financial covenants in relation to aircraft pre-delivery deposits, financing arrangements relating to cash balances and adjusted equity balances. Any breach of covenants may require the Group to repay the relevant loans earlier than indicated in the above table. As at 30 June 2012, the Group was compliant with these covenants.

The net inflows/outflows disclosed in the previous table represent the contractual undiscounted cash flows relating to derivative financial assets/liabilities held for risk management purposes as at 30 June 2013. The Group may exercise the ability to close out the instruments prior to contracted maturity in line with the Group's hedging policy. The disclosure shows net cash flow amounts for derivatives that are net cash settled.

At 30 June 2013, the Group held various types of derivative instruments that were designated as cash flow hedges of future forecast transactions. These were:

- Hedging of future jet fuel purchases by commodity forward contracts and option contracts;
- Hedging of future interest payments by interest rate swap contracts; and
- Hedging of future foreign currency payments by forward exchange contracts and option contracts.

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur:

		Expected cash flows				
2013	Carrying amount $m	Less than 1 year $m	1-2 years $m	2-5 years $m	More than 5 years $m	Total $m
Interest rate swaps:						
– Liabilities	**(9.3)**	**(5.2)**	**(3.2)**	**(0.9)**	**–**	**(9.3)**
Commodity contracts used for hedging:						
– Liabilities	**–**	**–**	**–**	**–**	**–**	**–**
– Assets	**54.9**	**47.9**	**7.0**	**–**	**–**	**54.9**
Forward exchange contracts used for hedging:						
– Liabilities	**–**	**–**	**–**	**–**	**–**	**–**
– Assets	**58.7**	**48.9**	**9.8**	**–**	**–**	**58.7**
	104.3	**91.6**	**13.6**	**(0.9)**	**–**	**104.3**

35. Financial instruments (continued)

(c) Liquidity risk (continued)

Exposure to liquidity risk (continued)

2012	Carrying amount $m	Expected cash flows Less than 1 year $m	1-2 years $m	2-5 years $m	More than 5 years $m	Total $m
Interest rate swaps:						
– Liabilities	(14.2)	(6.1)	(5.0)	(3.1)	–	(14.2)
Commodity contracts used for hedging:						
– Liabilities	(35.5)	(33.3)	(2.2)	–	–	(35.5)
– Assets	0.1	–	0.1	–	–	0.1
Forward exchange contracts used for hedging:						
– Liabilities	(2.8)	(2.8)	–	–	–	(2.8)
– Assets	0.5	0.5	–	–	–	0.5
	(51.9)	(41.7)	(7.1)	(3.1)	–	(51.9)

The cash flows outlined above are expected to impact profit or loss in the same periods in which the cash flows are expected to occur.

(d) Capital management

Capital management is a key focus of the Board of Directors (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.

The Board monitors the liquidity of the Group including unrestricted cash balances. Future financing requirements including those relating to aircraft purchases are monitored with determination of financing being based on competitively priced financing alternatives available at the time of the financing transaction. Compliance with debt covenants is monitored.

The Group's mix of interest-bearing liabilities as at 30 June 2012 consisted solely of aeronautic finance facilities, of which 15.2% were current facilities and 84.8% were non-current facilities. As at 30 June 2013, this mix was extended to include loans from banks, loans from associates and finance lease liabilities, of which 19.8% were current facilities and 80.2% were non-current facilities. In addition, subsequent to year end the Group secured shareholder loan facilities totalling AUD $90 million (refer note 44(b)). There were no other significant changes in the Group's approach to capital management during the 2013 financial year.

(e) Net fair value

The net fair value of cash and cash equivalents, and non interest-bearing financial assets and liabilities, approximates their carrying value due to their short maturity. The net fair value of other financial assets and liabilities is determined by valuing them at the present value of future contracted cash flows. Cash flows are discounted using standard valuation techniques at the applicable credit adjusted market yield, having regard to the timing of the cash flows.

The net fair value of forward foreign exchange, fuel and interest rate swap contracts is determined as the present value of the unrealised gain/(loss) at reporting date by reference to market exchange rates, fuel prices and interest rates. Cash flows are discounted using standard valuation techniques at the applicable market yield, having regard to the timing of the cash flows. The net fair value of options is determined using standard valuation techniques.

35. Financial instruments (continued)

(e) Net fair value (continued)

The basis for determining fair values is discussed in note 3(u). The fair values of financial assets and liabilities, together with the carrying amounts shown in the consolidated statement of financial position, are as follows:

	Note	Carrying amount 2013 $m	Carrying amount 2012 $m	Fair value 2013 $m	Fair value 2012 $m
Financial assets carried at fair value					
Fuel hedging contracts – cash flow hedges	16	**54.9**	0.1	**54.9**	0.1
Forward foreign exchange contracts – cash flow hedges	16	**58.7**	0.5	**58.7**	0.5
Equity warrants	16	**–**	0.1	**–**	0.1
		113.6	0.7	**113.6**	0.7
Financial assets carried at amortised cost					
Cash and cash equivalents	13	**580.5**	802.6	**580.5**	802.6
Trade and other receivables	14	**188.7**	165.7	**188.7**	165.7
Other financial assets	17	**46.0**	55.8	**46.0**	55.8
		815.2	1,024.1	**815.2**	1,024.1
Financial liabilities carried at fair value					
Fuel hedging contracts – cash flow hedges	16	**–**	35.5	**–**	35.5
Interest rate swap contracts – cash flow hedges	16	**9.3**	14.2	**9.3**	14.2
Forward exchange contracts – cash flow hedges	16	**–**	2.8	**–**	2.8
		9.3	52.5	**9.3**	52.5
Financial liabilities carried at amortised cost					
Trade and other payables	23	**587.0**	508.3	**587.0**	508.3
Loans (aeronautic finance facilities)	24	**1,756.5**	1,674.1	**1,804.8**	1,747.9
Finance lease liabilities	24	**25.1**	–	**25.1**	–
Other interest bearing liabilities	24	**108.3**	–	**109.3**	–
		2,476.9	2,182.4	**2,526.2**	2,256.2

Fair value hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. as derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

With the exception of equity warrants held as at 30 June 2012, all other financial instruments held by the Group and carried at fair value are classified as Level 2 instruments.

	Level 2 2013 $m	Level 2 2012 $m	Level 3 2013 $m	Level 3 2012 $m
Derivative financial assets	**113.6**	0.6	**–**	0.1
Derivative financial liabilities	**(9.3)**	(52.5)	**–**	–
	104.3	(51.9)	**–**	0.1

35. Financial instruments (continued)

(e) Net fair value (continued)

Fair value hierarchy (continued)

In the prior year, the Level 3 fair value category consisted of equity warrants purchased during that period. Following the Group's acquisition of the Skywest Group in April 2013, these equity warrants were eliminated as a pre-existing relationship (refer note 7).

The equity warrants were classified as Level 3 as they were not actively traded in the market, hence in conjunction with the quoted equity price information the Garman-Klass method of estimating volatility was used for valuation purposes. The effect of any change to an alternative assumption was considered to be insignificant.

During the prior year a loss of $0.2 million was recognised within ineffective cash flow hedges and non-designated derivatives expenses in profit or loss in relation to these equity warrants. There were no gains or losses recognised in other comprehensive income, no transfers into or out of Level 3, or sales and settlements during the prior year.

36. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 3(a):

	Equity Holding	
Name	**2013**	**2012**
Virgin Australia Holidays Pty Ltd[(1)]	**100%**	100%
Red Jet Foundation Pty Ltd	**100%**	100%
V Australia Airlines Pty Ltd	**100%**	100%
VA Leaseco No.4 Pty Ltd[(2)]	**100%**	–
VAH Newco No.1 Pty Ltd[(3)]	**100%**	–
VAH Newco No.2 Pty Ltd[(3)(4)]	**100%**	–
VB 700 2009 Pty Ltd	**100%**	100%
VB 800 2009 Pty Ltd	**100%**	100%
VB E190 2009 No.2 Pty Ltd	**100%**	100%
VB E190 2009 Pty Ltd	**100%**	100%
VB Investco Pty Ltd	**100%**	100%
VB Leaseco No.2 Pty Ltd	**100%**	100%
VB Leaseco No.3 Pty Ltd	**100%**	100%
VB Leaseco Pty Ltd	**100%**	100%
VB LH 2008 No.1 Pty Ltd	**100%**	100%
VB LH 2008 No.2 Pty Ltd	**100%**	100%
VB LH 2010-11 No.1 Pty Ltd	**100%**	100%
VB LH 2010-11 No.2 Pty Ltd	**100%**	100%
VB PDP 2010-11 Pty Ltd	**100%**	100%
VB Training Pty Ltd	**100%**	100%
VB Ventures Pty Ltd	**100%**	100%
VBIANC1 Pty Ltd	**100%**	100%
VBNC1 Pty Ltd	**100%**	100%
VBNC2 Pty Ltd	**100%**	100%
VBNC3 Pty Ltd	**100%**	100%
VBNC4 Pty Ltd	**100%**	100%
VBNC5 Pty Ltd	**100%**	100%
VBNC8 Pty Ltd	**100%**	100%
VBNC9 Pty Ltd	**100%**	100%
VBNC10 Pty Ltd	**100%**	100%

36. Subsidiaries (continued)

	Equity Holding	
Name	2013	2012
Velocity Rewards Pty Ltd	**100%**	100%
Virgin Australia Pty Ltd	**100%**	100%
Virgin Australia Airlines Pty Ltd(4)	**100%**	100%
Virgin Tech Pty Ltd(4)	**100%**	100%
Virgin Australia (NZ) Holdings Pty Ltd(4)	**100%**	100%
Virgin Australia (NZ) Employment and Crewing Ltd	**100%**	100%
Virgin Australia Airlines Holdings Pty Ltd	**100%**	100%
Virgin Australia Airlines Services Pty Ltd	**100%**	100%
Virgin Australia International Operations Pty Ltd(4)	**100%**	100%
737 2012 No.1 Pty Ltd	**100%**	100%
737 2012 No.2 Pty Ltd	**100%**	100%
Capital Lease Australian Portfolio One Pty Ltd(5)	**100%**	–
A.C.N. 098 904 262 Pty Ltd(4)(5)	**100%**	–
Virgin Australia Regional Airlines Pty Ltd(4)(5)	**100%**	–
Skywest Airlines Pte Ltd(5)	**100%**	–
Captivevision Capital Pte Ltd(5)(6)	**100%**	–
F11305 Pte Ltd(5)	**100%**	–
Skywest Airlines (S) Pte Ltd(5)	**100%**	–
Key Employee Performance Plan Trust(7)	**–**	–
Red Jet Foundation Charitable Trust(7)	**–**	–
The Loyalty Trust(7)	**–**	–
VH-ZHA: MSN 17000180 Owner Trust(8)	**–**	–
VH-ZHB: MSN 17000187 Owner Trust(8)	**–**	–
VH-ZHC: MSN 17000191 Owner Trust(8)	**–**	–
VH-ZHD: MSN 17000227 Owner Trust(8)	**–**	–
VH-ZHE: MSN 17000247 Owner Trust(8)	**–**	–
VH-ZHF: MSN 17000255 Owner Trust(8)	**–**	–
Virgin Australia International Airlines Pty Ltd(9)	**–**	–
Virgin Australia International Holdings Pty Ltd(9)	**–**	–
Virgin Australia Airlines (NZ) Ltd(9)	**–**	–
Virgin Australia Airlines (SE Asia) Pty Ltd(9)	**–**	–

(1) This entity changed its name during the 2013 financial year from Blue Holidays Pty Ltd to Virgin Australia Holidays Pty Ltd.

(2) This entity was incorporated on 28 March 2013.

(3) These entities were incorporated on 22 October 2012.

(4) Pursuant to ASIC Class Order 98/1418 (as amended), 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 2013. Refer note 42 for further information. VAH Newco No.2 Pty Ltd, A.C.N 098 904 262 Pty Ltd and Virgin Australia Regional Airlines Pty Ltd (formerly known as Skywest Airlines (Australia) Pty Ltd) were pursuant to the class order from 4 June 2013. Virgin Australia International Operations Pty Ltd was pursuant to the class order from 14 November 2012.

(5) The Company gained control of these entities by virtue of acquiring 100% of the issued share capital in Skywest Airlines Pte Ltd (formerly known as Skywest Airlines Ltd). Details of this acquisition are disclosed in note 7.

(6) This entity changed its name during the 2013 financial year from Captivevision Capital Ltd to Captivevision Capital Pte Ltd.

(7) The Company administers the Key Employee Performance Plan Trust, The Loyalty Trust and Red Jet Foundation Charitable Trust through appointed Trustees.

(8) The Company consolidates these entities despite holding no issued capital, as the Company has the ability to govern the financial and operating policies so as to obtain benefits from their activities.

(9) The Company consolidates these entities despite holding minimal issued capital, as the Company has the ability to govern their financial and operating policies through a funding agreement and other contractual arrangements so as to obtain benefits from their activities.

36. Subsidiaries (continued)

All entities were incorporated in Australia, with the exception of the following:

Subsidiary	Country of incorporation
Virgin Australia Airlines (NZ) Ltd	New Zealand
Virgin Australia (NZ) Employment and Crewing Ltd	New Zealand
Skywest Airlines Pte Ltd	Singapore
Skywest Airlines (S) Pte Ltd	Singapore
Captivevision Capital Pte Ltd	Singapore
F11305 Pte Ltd	Singapore

The proportion of ownership interest is equal to the proportion of voting power held.

37. Reconciliation of (loss)/profit after income tax to net cash from operating activities

	2013 $m	Restated 2012 $m
(Loss)/profit for the financial year	**(98.1)**	22.8
Adjustments for:		
Depreciation	**219.4**	224.0
Amortisation	**25.6**	22.9
Share of profit of associate	**(0.1)**	(0.2)
Loss on disposal of property, plant and equipment	**2.0**	25.0
Amortisation of deferred borrowing costs	**5.2**	4.0
Equity-settled share-based payment expenses	**2.4**	1.3
Movement in derivative balances	**75.6**	(1.0)
Unrealised foreign exchange movements – non-operating activities	**(16.1)**	(69.3)
Lapsed aircraft options	**1.2**	–
	217.1	229.5
Changes in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	**(43.8)**	(3.3)
(Increase)/decrease in inventories	**(10.1)**	(9.8)
(Increase)/decrease in other assets	**(0.2)**	(1.0)
(Increase)/decrease in deferred and current tax assets	**(15.3)**	(3.3)
(Decrease)/increase in trade and other payables	**47.4**	108.6
(Decrease)/increase in provisions	**(8.3)**	7.4
(Decrease)/increase in derivatives	**(156.2)**	9.5
(Decrease)/increase in unearned revenue	**36.8**	(8.0)
(Decrease)/increase in deferred tax liabilities	**(8.7)**	5.5
(Decrease)/increase in other liabilities	**1.9**	–
Net cash from operating activities	**60.6**	335.1

38. Employee benefits

	2013 $m	2012 $m
Current		
Salaries and wages accrued	**13.5**	11.2
Provision for employee bonuses	**7.6**	10.3
Provision for annual leave	**56.1**	47.9
Provision for long service leave	**28.6**	22.9
	105.8	92.3
Non-current		
Provision for long service leave	**11.9**	9.5

(a) Superannuation plans

The Group contributes to several defined contribution superannuation plans. The amount recognised as expense for the year ended 30 June 2013 was $55.2 million (2012: $50.2 million).

39. Share-based payments

(a) Executive option plans

The Group has established the following executive option plans. The options have been granted to senior executives of the Group.

Plan	Vesting Periods and Conditions
CEO Co-Investment Scheme (CEOCIS)	• The CEO was granted a one-off issue of $400,000 zero exercise price performance rights on commencement under the CEOCIS in exchange for purchasing $200,000 of the Company shares. Under the terms of the scheme Mr Borghetti was restricted from trading the purchased shares for two years from 8 May 2010. • The number of performance rights issued was determined having regard to the 20 day weighted average share price of the Company's shares up to and including the date of announcement on 2 March 2010 of the CEO's appointment. • The performance rights will vest and become exercisable on the achievement of a minimum share price hurdle to be achieved at the end of the performance period from 8 May 2010 to 30 June 2013. The performance hurdle will be met where the Company's 20 day weighted average share price at the end of the performance period is 25% higher than the 20 day weighted average share price at 8 May 2010. • The exercise period is 30 June 2013 to 30 June 2014, however the performance rights expired immediately as they did not vest on the vesting date.
CEO Commencement LTI (SEOP) Issue 13	• The CEO was granted zero exercise price options on the date of the 2010 Annual General Meeting on 24 November 2010. These options are subject to a three year performance period to 7 May 2013. • The performance hurdle is that growth in the Company's TSR over the performance period relative to the median S&P/ASX 200 Index (excluding financial sector and resource companies). Base TSR and TSR on the vesting date will be determined using the 30 day VWAP for VAH shares. Satisfaction of the performance hurdle was tested on 7 May 2013 and in respect of any options that remain unvested will be tested again on 31 December 2013. • The vesting outcome at the end of the performance period is to be based on the following TSR schedule: **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% • Subject to Board discretion, the participant must also be employed by the Group throughout the performance period. • The exercise period for any unvested options is between the date on which the Group's 2013 annual results are announced and concluding on 30 June 2014. The expiry date for exercise of vested options is 30 June 2014.

39. Share-based payments (continued)

(a) Executive option plans (continued)

<table>
<tr><th>Plan</th><th>Vesting Periods and Conditions</th></tr>
<tr><td>Senior Executive Option Plan (SEOP) Issue 12</td><td>Senior executives (excluding the CEO) were granted zero exercise price options in the 2011 financial year under SEOP 12. The terms of the grants were:

Issued on 10 March 2011, the performance period covers the three years from 1 July 2010 to 30 June 2013.
The performance hurdle is that growth in the Company's TSR over the performance period exceeds that of the median S&P/ASX 200 Index (excluding financial sector and resource companies). Base TSR and TSR on the vesting date will be determined using the 30 day VWAP for VAH shares. Satisfaction of the performance hurdle was tested on 30 June 2013 and in respect of any options that remain unvested will be tested again on 31 December 2013.
The vesting outcome at the end of the performance period is to be based on the following TSR schedule:

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

Subject to Board discretion, the participant must also be employed by the Group in a General Manager's role or higher throughout the performance period.
The exercise period for any vested options is between the date on which the Group's 2013 annual results are announced and concluding on 30 June 2014. The expiry date for exercise of vested options is 30 June 2014.
</td></tr>
<tr><td>Senior Executive Option Plan (SEOP) Issue 14</td><td>The CFO was granted zero exercise price options in the 2012 financial year under SEOP 14. The terms of the grants were:

Issued on 11 October 2011, the options are exercisable if there is growth in the Company's TSR over the period from 11 April 2011 to 30 June 2013 relative to the median of the S&P/ASX 200 Index (excluding financial services and resource companies). Base TSR and TSR on the vesting date will be determined using the 30 day VWAP for VAH shares. There will be one additional testing date (being 31 December 2013) in respect of any of the options that remained unvested following testing on 30 June 2013.
The vesting outcome at the end of the performance period is to be based on the following TSR schedule:

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

The zero price exercise options offered under the plan can only be exercised if the performance hurdle is achieved at the conclusion of the three year performance period, or at the three year and six month re-test.
Any vested options are exercisable during the period commencing on the date on which the 2013 annual results are announced and concluding on 30 June 2014. The expiry date for exercise of vested options is 30 June 2014.
</td></tr>
</table>

39. Share-based payments (continued)

(a) Executive option plans (continued)

<table>
<tr><th>Plan</th><th>Vesting Periods and Conditions</th></tr>
<tr><td>Senior Executive Option Plan (SEOP) Issue 15</td><td>Senior executives (excluding the CEO) were granted zero price options in the 2012 financial year under SEOP 15. The terms of the grants were:

Issued on 29 February 2012, the options are exercisable if there is growth in the Company's TSR over a three year period (commencing 1 July 2011 and ending on 30 June 2014) relative to the median of the S&P/ASX 200 Index (excluding financial services and resource companies). Base TSR and TSR on the testing date, 30 June 2014 will be determined using the VWAP for VAH shares traded on the ASX on each of the 30 trading days up to and including the relevant date.
The table below sets out the percentage of the options that will vest depending on the Company's TSR relative to the comparator group as at the testing date:
<table>
<tr><th>The Group's relative TSR growth</th><th>% of options that vest</th></tr>
<tr><td>Below 50th percentile</td><td>0%</td></tr>
<tr><td>50th percentile</td><td>50%</td></tr>
<tr><td>Between 51st and 74th percentile</td><td>2% (for each percentile ranking above 50%)</td></tr>
<tr><td>75th percentile</td><td>100%</td></tr>
</table>
The zero exercise price options offered under the plan can only be exercised if the performance hurdle is achieved at the conclusion of the three year performance period.
Any vested options are exercisable during the period commencing on the date on which the 2014 annual results are announced and concluding on 30 June 2015.
</td></tr>
<tr><td>Senior Executive Option Plan (SEOP) Issue 16</td><td>The CEO was granted zero exercise price options in the 2012 financial year under SEOP 16. The terms of the grants were:

Issued on 29 February 2012, 50% of the options are exercisable if there is growth in the Company's TSR over a three year period (commencing 1 July 2011 and ending on 30 June 2014) relative to the median of the S&P/ASX 200 Index (excluding financial services and resource companies). Base TSR and TSR on the testing date, 30 June 2014 and 30 June 2015, will be determined using the VWAP for VAH shares traded on the ASX on each of the 30 trading days up to and including the relevant date.
The table below sets out the percentage of the options that will vest depending on the Company's TSR relative to the comparator group as at the testing date:
<table>
<tr><th>The Group's relative TSR growth</th><th>% of options that vest</th></tr>
<tr><td>Below 50th percentile</td><td>0%</td></tr>
<tr><td>50th percentile</td><td>50%</td></tr>
<tr><td>Between 51st and 74th percentile</td><td>2% (for each percentile ranking above 50%)</td></tr>
<tr><td>75th percentile</td><td>100%</td></tr>
</table>
The remaining 50% of the options are exercisable if corporate performance measures determined by the Board are met. The performance measures include specific targets in relation to the growth of corporate, government and alliances partners' related business, performance of the Velocity frequent flyer program and Group safety outcomes.
Of the options which vest, 60% of them will vest on 30 June 2014 and 40% will vest on 30 June 2015. Options that vest will be exercisable no later than 12 months after vesting, after which they will lapse.
</td></tr>
</table>

39. Share-based payments (continued)

(a) Executive option plans (continued)

<table>
<tr><th>Plan</th><th>Vesting Periods and Conditions</th></tr>
<tr><td>Senior Executive Option Plan (SEOP) Issue 17</td><td>Senior executives (excluding the CEO) were granted zero price options in the 2013 financial year under SEOP 17. The terms of the grants were:
• Issued on 1 May 2013, the options are exercisable if there is growth in the Company's TSR over a three year period (commencing 1 July 2012 and ending on 30 June 2015) relative to the median of the S&P/ASX 200 Index (excluding financial services and resource companies). Base TSR and TSR on the testing date, 30 June 2015 will be determined using the VWAP for VAH shares traded on the ASX on each of the 30 trading days up to and including the relevant date.
• The table below sets out the percentage of the options that will vest depending on the Company's TSR relative to the comparator group as at the testing date:
<table>
<tr><th>The Group's relative TSR growth</th><th>% of options that vest</th></tr>
<tr><td>Below 50th percentile</td><td>0%</td></tr>
<tr><td>50th percentile</td><td>50%</td></tr>
<tr><td>Between 51st and 74th percentile</td><td>2% (for each percentile ranking above 50%)</td></tr>
<tr><td>75th percentile</td><td>100%</td></tr>
</table>
• The zero exercise price options offered under the plan can only be exercised if the performance hurdle is achieved at the conclusion of the three year performance period.
• Any vested options are exercisable during the period commencing on the date on which the 2015 annual results are announced and concluding on 30 June 2016.</td></tr>
<tr><td>Senior Executive Option Plan (SEOP) Issue 18</td><td>The CFO was granted zero exercise price options in the 2013 financial year under SEOP 18. The terms of the grants were:
• Issued on 1 May 2013, the options as exercisable if the CFO remains in continuous employment with the Virgin Australia Group of companies in a Group Executive role or higher throughout the period 1 July 2012 to 30 June 2015.
• Exercised entitlements will be satisfied by either an allotment of new securities or by an on-market purchase of existing securities, at the Board's discretion.
• Any vested options are exercisable during the period commencing on the date on which the 2015 annual results are announced and concluding on 30 June 2016.</td></tr>
<tr><td>Senior Executive Option Plan (SEOP) Issue 19</td><td>The CEO was granted zero exercise price options in the 2013 financial year under SEOP 19. The terms of the grants were:
• Issued on 1 May 2013, 50% of the options are exercisable if there is growth in the Company's TSR over a three year period (commencing 1 July 2012 and ending on 30 June 2015) relative to the median of the S&P/ASX 200 Index (excluding financial services and resource companies). Base TSR and TSR on the testing date, 30 June 2015 and 30 June 2016, will be determined using the VWAP for VAH shares traded on the ASX on each of the 30 trading days up to and including the relevant date.
• The table below sets out the percentage of the options that will vest depending on the Company's TSR relative to the comparator group as at the testing date:
<table>
<tr><th>The Group's relative TSR growth</th><th>% of options that vest</th></tr>
<tr><td>Below 50th percentile</td><td>0%</td></tr>
<tr><td>50th percentile</td><td>50%</td></tr>
<tr><td>Between 51st and 74th percentile</td><td>2% (for each percentile ranking above 50%)</td></tr>
<tr><td>75th percentile</td><td>100%</td></tr>
</table>
• The remaining 50% of the options are exercisable if corporate performance measures determined by the Board are met. The performance measures include specific targets, each of which are equally weighted in relation to the growth of corporate, government and alliances partners' related business, performance of the Velocity frequent flyer program, Group safety outcomes and productivity enhancements.
• Of the options which vest, 60% of them will vest on 30 June 2015 and 40% will vest on 30 June 2016. Options that vest will be exercisable no later than 12 months after vesting, after which they will lapse.</td></tr>
</table>

39. Share-based payments (continued)

(a) Executive option plans (continued)

The following plans were active during 2012, but had expired by 30 June 2012.

<table>
<tr><th>Plan</th><th>Vesting Periods and Conditions</th></tr>
<tr><td>Senior Executive Option Plan (SEOP) Issue 7</td><td>Senior executives were granted options in the 2007 financial year under SEOP 7. The terms of the grants were:

SEOP 7 was issued in four tranches, vesting equally over four years. The performance period commenced on the issue date of 8 December 2006 and ended on the 12 month anniversary date for the following four years.
The performance hurdle was that TSR (growth plus dividend) of the Company over the performance period was equal to or better than the percentage increase of the S&P/ASX 200 Index.
SEOP 7 had an exercise price of $2.19.
Options in a given tranche vested if the performance hurdle was met. If the hurdle was not met, the options could vest later if the hurdle was subsequently met for 30 continuous trading days at any time between the performance date and the expiry date of five years after issue date.
As the performance hurdle was not achieved at the additional testing date, the options lapsed during the 2012 financial year.
</td></tr>
<tr><td>Senior Executive Option Plan (SEOP) Issue 11</td><td>Senior executives were granted zero exercise price options in the 2010 financial year under SEOP 11. The terms of the grants were:

Issued on 1 April 2010, the performance period covered the three years from 1 July 2009 to 30 June 2012.
The vesting outcome at the end of the performance period was to be based on the following schedule:
<table>
<tr><th>Cumulative absolute EPS (3 years to 30 June 2012)</th><th>% of options that vest</th></tr>
<tr><td>Less than 12 cents</td><td>0%</td></tr>
<tr><td>Between 12 and 19 cents</td><td>Straight line vesting between 50% and 99%</td></tr>
<tr><td>Greater than 20 cents</td><td>100%</td></tr>
</table>
Subject to Board discretion, the participant was also to be employed by the Group in a General Manager's role or higher throughout the performance period.
The exercise period for any vested options was between the date on which the Group's 2012 results were announced and concluding on 30 June 2013. The expiry date for exercise of vested options was 30 June 2013.
As the performance hurdle was not achieved at the vesting date, the options lapsed on 30 June 2012.
</td></tr>
</table>

All options are granted for no consideration. When exercisable, each option is convertible into one ordinary share.

39. Share-based payments (continued)

(a) Executive option plans (continued)

Set out below are summaries of options granted under the plans by the Group:

Option plan	Grant date	Number of options at beginning of year '000	During the year (number) Options granted '000	Options forfeited '000	Options lapsed '000	Options exercised '000	Number of options at year end on issue '000	Number of options vested and exercisable at year end '000	Exercise price	Expiry date
2013										
CEOCIS[1]	8-May-10	**659**	–	–	**(659)**	–	–	–	**$0.00**	**30-Jun-14**
CEO SEOP 13[2]	24-Nov-10	**4,116**	–	–	–	–	**4,116**	–	**$0.00**	**30-Jun-14**
SEOP 12[2]	10-Mar-11	**15,050**	–	**(2,944)**	–	–	**12,106**	**8,313**	**$0.00**	**30-Jun-14**
SEOP 14[2]	11-Oct-11	**414**	–	–	–	–	**414**	**273**	**$0.00**	**30-Jun-14**
SEOP 15[2]	29-Feb-12	**18,094**	–	**(4,708)**	–	–	**13,386**	–	**$0.00**	**30-Jun-15**
SEOP 16[2]	29-Feb-12	**4,942**	–	–	–	–	**4,942**	–	**$0.00**	**30-Jun-15/16[3]**
SEOP 17[2]	1-May-13	–	**7,027**	–	–	–	**7,027**	–	**$0.00**	**30-Jun-16**
SEOP 18[2]	1-May-13	–	**653**	–	–	–	**653**	–	**$0.00**	**30-Jun-16**
SEOP 19[2]	1 –May-13	–	**2,796**	–	–	–	**2,796**	–	**$0.00**	**30-Jun-16/17[4]**
Total		**43,275**	**10,476**	**(7,652)**	**(659)**	–	**45,440**	**8,586**		
Weighted average exercise price		**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**		

Option plan	Grant date	Number of options at beginning of year '000	During the year (number) Options granted '000	Options forfeited '000	Options lapsed '000	Options exercised '000	Number of options at year end on issue '000	Number of options vested and exercisable at year end '000	Exercise price	Expiry date
2012										
SEOP 7[2]	8-Dec-06	1,874	–	–	(1,874)	–	–	–	$2.19	7-Dec-11
SEOP 11[2]	1-Apr-10	11,774	–	(1,463)	(10,311)	–	–	–	$0.00	30-Jun-13
CEOCIS[1]	8-May-10	659	–	–	–	–	659	–	$0.00	30-Jun-14
CEO SEOP 13[2]	24-Nov-10	4,116	–	–	–	–	4,116	–	$0.00	30-Jun-14
SEOP 12[2]	10-Mar-11	16,239	–	(1,189)	–	–	15,050	–	$0.00	30-Jun-14
SEOP 14[2]	11-Oct-11	–	414	–	–	–	414	–	$0.00	30-Jun-14
SEOP 15[2]	29-Feb-12	–	18,663	(569)	–	–	18,094	–	$0.00	30-Jun-15
SEOP 16[2]	29-Feb-12	–	4,942	–	–	–	4,942	–	$0.00	30-Jun-15/16[3]
Total		34,662	24,019	(3,221)	(12,185)	–	43,275	–	–	
Weighted average exercise price		$0.12	$0.00	$0.00	$0.34	$0.00	$0.00	$0.00		

(1) CEOCIS is the CEO Co-Investment Scheme.

(2) SEOP is the Senior Executive Option Plan.

(3) Of the options which vest, 60% of them will vest on 30 June 2014 and 40% will vest on 30 June 2015. Options that have vested will be exercisable no later than 12 months after vesting, after which they will lapse.

(4) Of the options which vest, 60% of them will vest on 30 June 2015 and 40% will vest on 30 June 2016. Options that have vested will be exercisable no later than 12 months after vesting, after which they will lapse.

The weighted average remaining contractual life of share options outstanding at the end of the financial year was three (2012: three) years.

39. Share-based payments (continued)

(a) Executive option plans (continued)

Fair value of options granted

The assessed fair value at grant date of options granted during the period are:

Plan	Grant Date	2013 $	2012 $
SEOP 14	11 October 2011	–	0.25
SEOP 15	29 February 2012	–	0.35
SEOP 16	29 February 2012	–	0.39
SEOP 17	1 May 2013	**0.25**	–
SEOP 18	1 May 2013	**0.46**	–
SEOP 19	1 May 2013	**0.25**	–

The fair value of options at grant date is determined in one of two ways, depending on the terms of the options:

a) Fair value is independently determined utilising assumptions underlying the Black-Scholes methodology to produce a Monte Carlo simulation model which allows for the incorporation of performance hurdles that must be met before the SEOP vests. The valuation is undertaken in a risk-neutral framework whilst allowing for variables such as volatility, dividends, the risk-free rate, the withdrawal rate and performance hurdles along with constants such as the strike price, term and vesting periods.

b) Fair value is determined as the value of the shares at grant date less the value of the dividends forgone over the vesting period. Expected volatility is estimated by considering historic average share price volatility.

The model inputs for performance rights granted during the period include:

	2013			2012		
	SEOP 17	SEOP 18	SEOP 19	SEOP 14	SEOP 15	SEOP 16
a) Exercise price	**$0.00**	**$0.00**	**$0.00**	$0.00	$0.00	$0.00
b) Grant date	**1 May 2013**	**1 May 2013**	**1 May 2013**	11 October 2011	29 February 2012	29 February 2012
c) Expiry date	**30 June 2016**	**30 June 2016**	**30 June 2016/17**	30 June 2014	30 June 2015	30 June 2015/16
d) Share price at grant date	**$0.455**	**$0.455**	**$0.455**	$0.320	$0.425	$0.425
e) Expected volatility of the Company's shares	**46%**	**n/a**	**46%**	64%	58.5%	58.5%
f) Expected dividend yield	**0%**	**0%**	**0%**	0%	0%	0%
g) Risk-free rate	**Australian Government Bond Yields**	**n/a**	**Australian Government Bond Yields**	Australian Government Bond Yields	Australian Government Bond Yields	Australian Government Bond Yields

39. Share-based payments (continued)

(b) Employee share plans

The Group has established the following employee share plan.

Share Plan	Date Established	Details	Restrictions
Key Employee Performance Plan (KEPP 12) 2012	1 July 2012	Directors may grant performance rights to eligible full-time or permanent part-time employees of the Group, other than a non-executive director of a member of the Group. The Company has appointed CPU Share Plans Pty Limited as Trustee to acquire and hold shares under the KEPP 12. The Trustee will transfer shares held by it to a participating employee when the vesting conditions in relation to a performance right have been satisfied or have been waived by the Board. The Company provides all monies required by the Trustee to acquire shares for the purposes of the KEPP 12, including costs and duties.	A participating employee is not entitled to any income or other rights (including voting rights) derived from any shares acquired by the Trustee under the KEPP 12 unless and until the shares are transferred to the employee, following satisfaction of any vesting conditions. The vesting conditions require employees to hold and not sell any of their initial purchase of shares and to remain an employee throughout the period. 5,409,856 performance rights were issued on 1 May 2013 under the KEPP 12 with a grant date of 6 September 2012. Issued in three tranches, 40% of the performance rights are eligible to vest on 1 July 2013, a further 40% are eligible to vest 1 July 2014 and the remaining 20% are eligible to vest on 1 July 2015. The performance rights are exercisable during the period commencing on the date on which the respective year's annual results are announced and concluding on 30 June of the subsequent year, upon which the rights will lapse if unexercised.

The following plans were active during 2012 but have expired by 30 June 2013.

Share Plan	Date Established	Details	Restrictions
Key Employee Performance Plan (KEPP 11) 2011	8 December 2003	Directors may grant performance rights to eligible full-time or permanent part-time employees of the Group, other than a non-executive director or a member of the Group. The Company has appointed CPU Share Plans Pty Limited as Trustee to acquire and hold shares under the KEPP 11. The Trustee will transfer shares held by it to a participating employee when the vesting conditions in relation to a performance right have been satisfied or have been waived by the Board. The Company provides all monies required by the Trustee to acquire shares for the purposes of the KEPP 11, including costs and duties.	A participating employee is not entitled to any income or other rights (including voting rights) derived from any shares acquired by the Trustee under the KEPP 11 unless and until the shares are transferred to the employee, following satisfaction of any vesting conditions. The vesting conditions require employees to hold and not sell any of their initial purchase of shares and to remain an employee throughout the period.
Employee Share Grant (ESG)	28 November 2011	Employees of the Virgin Australia group of airlines (excluding the Group Executive Team, Senior Management Team and Managers) have been offered 1,000 performance rights in recognition of their hard work and enormous progress in implementing the Group's Game Change program.	Employees must have been employed by the Virgin Australia group of airlines as of 28 November 2011 and remain employed up to and including 30 June 2012 (Eligible Employees). On 1 July 2012, the performance rights vested, at which time eligible employees received 1,000 ordinary shares in VAH.

39. Share-based payments (continued)

(b) Employee share plans (continued)

Set out below are summaries of performance rights granted in the Key Employee Performance Plan (KEPP) and Employee Share Grant (ESG) by the Group:

	Number of performance rights at the beginning of the year '000	Number of performance rights granted during the year '000	Number of performance rights vested and exercised during the year '000	Number of performance rights forfeited during the year '000	Number of performance rights at the end of the year '000	Number of performance rights vested and exercisable at the end of the year '000
2013						
KEPP 11	**580**	**–**	**(580)**	**–**	**–**	**–**
ESG	**5,873**	**–**	**(5,873)**	**–**	**–**	**–**
KEPP 12	**–**	**5,410**	**–**	**–**	**5,410**	**–**
	6,453	**5,410**	**(6,453)**	**–**	**5,410**	**–**
2012						
KEPP	–	580	–	–	580	–
ESG	–	7,061	–	(1,188)	5,873	–
	–	7,641	–	(1,188)	6,453	–

Fair value of performance rights granted

The assessed fair value at grant date of performance rights granted during the period are:

Plan	Grant Date	2013 $	2012 $
KEPP 11	24 October 2011	**–**	0.355
ESG	28 November 2011	**–**	0.335
KEPP 12	6 September 2012	**0.440**	–

The fair value of performance rights at grant date is independently determined utilising 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 model inputs for performance rights granted during the period include:

	2013	2012	
	KEPP 12	**KEPP 11**	**ESG**
a) Exercise price	**$0.00**	$0.00	$0.00
b) Grant date	**6 September 2012**	24 October 2011	28 November 2011
c) Expiry date	**1 July 2016(1)**	1 July 2012	1 July 2012
d) Share price at grant date	**$0.440**	$0.355	$0.335
e) Expected volatility of the Company's shares	**n/a**	n/a	n/a
f) Expected dividend yield	**0%**	0%	0%
g) Risk-free rate	**Australian Government Bond Yields**	Australian Government Bond Yields	Australian Government Bond Yields

(1) Of the performance rights which vest, 40% will expire on 1 July 2014, 40% will expire on 1 July 2015 and 20% will expire on 1 July 2016.

39. Share-based payments (continued)

(b) Employee share plans (continued)

Fair value of performance rights granted (continued)

Set out below are summaries of shares in Virgin Australia Holdings Limited held within the Key Employee Performance Plan:

	Shares at the beginning of the period	Acquired by the Plan during the period		Distribution during the period	Shares at the end of period
	Number '000	Number '000	Fair value per share $	Number '000	Number '000
2013	**20,118**	**–**	**–**	**(6,453)**	**13,665**
2012	20,118	–	–	–	20,118

The fair value of shares granted and distributed during the period is the market price of shares of the Company on the Australian Securities Exchange as at close of trading on each of the issue dates. The fair value is allocated over the vesting period evenly.

(c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the year as part of employee benefit expense were as follows:

	2013 $'000	2012 $'000
Options issued under employee option plans	**1,365**	(905)
Shares issued under employee share plans	**990**	2,168
	2,355	1,263

40. Related parties

(a) Key management personnel disclosures

Key management personnel compensation

The key management personnel compensation comprises:

	2013 $'000	2012 $'000
Short-term employee benefits	**9,355**	11,027
Long-term benefits	**44**	52
Post-employment benefits	**306**	337
Share-based payments	**2,503**	3,170
Termination benefits	**–**	977
	12,208	15,563

All key management personnel are employed by Virgin Australia Airlines Pty Limited.

Individual directors and executives compensation disclosures

Information regarding individual directors and executive's compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 and 2M.6.04 is provided in the Remuneration Report section of the Directors' Report on pages 56 to 72.

Apart from the details disclosed in this note, no director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at 30 June 2013.

Loans to key management personnel

There were no loans made, guaranteed, secured or outstanding during the year to key management personnel or their related parties (2012: nil).

40. Related parties (continued)

(a) Key management personnel disclosures (continued)

Other transactions with key management personnel

A number of key management personnel 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-key management personnel related entities on an arms-length basis. The details of these transactions are disclosed in note 40(b). Personal travel by key management personnel and their related parties is undertaken on terms no more favourable than those of employees, as per Group policy.

Options and performance rights over equity instruments

The movement during the reporting period in the number of options and performance rights over ordinary shares in the Company held directly, indirectly or beneficially, by each key management personnel, including their related parties, is as follows:

2013	Held at 1 July 2012 '000	Commenced as a KMP '000	Granted '000	Exercised '000	Other changes(1) '000	Ceased as a KMP '000	Held at 30 June 2013 '000	Vested during the year '000	Vested and exercisable at 30 June 2013 '000
Directors									
Mr J Borghetti	**9,716**	**–**	**2,796**	**–**	**(659)**	**–**	**11,853**	**–**	**–**
Other key management personnel of the Group									
Mr S Narayan	**1,514**	**–**	**2,064**	**(40)**	**–**	**–**	**3,538**	**–**	**273**
Mr S Donohue	**1,695**	**–**	**1,069**	**(116)**	**–**	**–**	**2,648**	**–**	**529**
Mr M Hassell	**236**	**–**	**512**	**–**	**–**	**–**	**748**	**–**	**–**
Ms J Crompton	**n/a**	**–**	**336**	**–**	**–**	**–**	**336**	**–**	**–**
Mr N Thompson	**n/a**	**–**	**447**	**–**	**–**	**–**	**447**	**–**	**–**
Ms M McArthur	**1,577**	**–**	**832**	**(96)**	**–**	**–**	**2,313**	**–**	**607**
Ms D Keighery	**1,044**	**–**	**545**	**(58)**	**–**	**–**	**1,531**	**–**	**400**
Ms J McKeon	**1,022**	**–**	**619**	**(56)**	**–**	**–**	**1,585**	**–**	**349**
Ms G Chin Moody	**n/a**	**–**	**86**	**–**	**–**	**–**	**86**	**–**	**–**
Mr R Tanner	**1,380**	**–**	**357**	**(78)**	**–**	**1,659**	**n/a**	**–**	**n/a**

2012	Held at 1 July 2011 '000	Commenced as a KMP '000	Granted '000	Exercised '000	Other changes(1) '000	Ceased as a KMP '000	Held at 30 June 2012 '000	Vested during the year '000	Vested and exercisable at 30 June 2012 '000
Directors									
Mr J Borghetti	4,775	–	4,941	–	–	–	9,716	–	–
Other key management personnel of the Group									
Mr S Narayan	–	–	1,514	–	–	–	1,514	–	–
Mr S Donohue	766	–	929	–	–	–	1,695	–	–
Mr M Hassell	n/a	–	236	–	–	–	236	–	–
Ms M McArthur	1,905	–	697	–	(1,025)	–	1,577	–	–
Ms D Keighery	579	–	465	–	–	–	1,044	–	–
Ms J McKeon	506	–	516	–	–	–	1,022	–	–
Mr R Tanner	1,797	–	608	–	(1,025)	–	1,380	–	–
Mr M Daley	1,639	–	557	–	(319)	(1,877)	n/a	–	–
Ms E Savage	1,002	–	747	–	–	(1,749)	n/a	–	–

(1) Other changes represent options that lapsed or were forfeited during the year.

40. Related parties (continued)

(a) Key management personnel disclosures (continued)

Options and performance rights over equity instruments (continued)

No options and performance rights have been granted since the end of the financial year. Options and performance rights are provided at no cost to the recipients. No options or performance rights held by key management personnel are vested but not exercisable. No options or performance rights were held by key management personnel related parties.

Movements in shares

The movement during the year in the number of ordinary shares in the Company held directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

2013	Balance at 1 July 2012 '000	Commenced as a KMP '000	Granted '000	Purchases '000	Sales '000	Ceased as a KMP '000	Balance at 30 June 2013 '000
Directors of Virgin Australia Holdings Limited							
Mr N Chatfield	**1,085**	–	–	**200**	**(80)**	–	**1,205**
Ms S Mostyn	**100**	–	–	**25**	–	–	**125**
Mr R Thomas	**486**	–	–	–	–	–	**486**
Mr M Vaile AO	**30**	–	–	–	–	–	**30**
Mr D Baxby	**40**	–	–	–	–	–	**40**
Mr J Bayliss	–	–	–	–	–	–	–
Mr K Roberts	**12**	–	–	–	–	–	**12**
Mr J Borghetti	**869**	–	–	–	–	–	**869**
Other key management personnel of the Group							
Mr S Narayan	–	–	**40**	–	–	–	**40**
Mr S Donohue	–	–	**116**	–	**(116)**	–	–
Mr M Hassell	–	–	–	–	–	–	–
Ms J Crompton	**n/a**	–	–	–	–	–	–
Mr N Thompson	**n/a**	–	–	–	–	–	–
Ms M McArthur	**430**	–	**96**	–	**(325)**	–	**201**
Ms D Keighery	–	–	**58**	–	–	–	**58**
Ms J McKeon	**70**	–	**56**		**(55)**	–	**71**
Ms G Chin Moody	**n/a**	–	–	–	–	–	–
Mr R Tanner	**5**	–	**78**	–	**(80)**	**(3)**	**n/a**

No shares were granted to KMP as compensation. Amounts were received by KMP on exercise of performance rights under KEPP 11 (refer to note 39 for details) during the 2013 financial year.

40. Related parties (continued)

(a) Key management personnel disclosures (continued)

Movements in shares (continued)

2012	Balance at 1 July 2011 '000	Commenced as a KMP '000	Granted '000	Purchases '000	Sales '000	Ceased as a KMP '000	Balance at 30 June 2012 '000
Directors of Virgin Australia Holdings Limited							
Mr N Chatfield	1,145	–	–	–	(60)	–	1,085
Ms S Mostyn	–	–	–	100	–	–	100
Mr R Thomas	486	–	–	–	–	–	486
Mr M Vaile AO	30	–	–	–	–	–	30
Mr D Baxby	40	–	–	–	–	–	40
Mr J Bayliss	–	–	–	–	–	–	–
Mr K Roberts	12	–	–	–	–	–	12
Mr S Murphy	222	–	–	–	–	(222)	n/a
Mr J Borghetti	869	–	–	–	–	–	869
Other key management personnel of the Group							
Mr S Narayan	–	–	–	–	–	–	–
Mr S Donohue	–	–	–	–	–	–	–
Mr M Hassell	n/a	–	–	–	–	–	–
Ms M McArthur	430	–	–	–	–	–	430
Ms D Keighery	–	–	–	–	–	–	–
Ms J McKeon	70	–	–	–	–	–	70
Mr R Tanner	5	–	–	–	–	–	5
Ms E Savage	–	–	–	–	–	–	n/a
Mr M Daley	49	–	–	–	–	(49)	n/a

No shares were granted to KMP as compensation and no amounts were received by KMP on exercise of options during the 2012 financial year.

(b) Non-key management personnel disclosures

The Group has a related party relationship with its subsidiaries (see note 36), its associate (see note 19) and its key management personnel (refer to disclosures for key management personnel above and on preceding pages).

Controlling entity

The ultimate parent entity in the Group is Virgin Australia Holdings Limited.

40. Related parties (continued)

(b) Non-key management personnel disclosures (continued)

Transactions with related parties

The following transactions occurred with related parties:

	2013 $'000	2012 $'000
Purchase of goods and services – non-key management personnel related entities		
"Virgin", "Virgin Holidays" and "Virgin Australia" brand name royalty paid to other related party[1]	**18,088**	13,581
Sale of goods and services		
Revenue for wet lease to associate	**18,859**	15,903
Revenue for airline services to associate	**11,559**	10,832
Finance costs		
Interest expense for unsecured loan from associate[2]	**264**	–
Dividends received		
Dividends received from associate	**381**	–

(1) Royalties are payable to Virgin Enterprises Ltd (VEL) which are determined to be on an arms-length basis. VEL is controlled by Virgin Group Holdings Ltd (VGHL). On 25 June 2013, VGHL diluted its shareholding in the Group resulting in a de-recognition of the Group as an associate of VGHL. At 30 June 2012, the Group had a current payable of $8.9 million owed to VEL.

(2) Refer to note 24(c) for details relating to the loan from Virgin Samoa Limited.

Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with Virgin Samoa Limited (associate):

	2013 $'000	2012 $'000
Key management personnel and key management personnel related entities		
Current receivables		
– Virgin Samoa Limited (sales of goods and services)	**3,770**	5,861
Current payables		
– Virgin Samoa Limited (purchases of goods and services)	**10,034**	11,163
– Virgin Samoa Limited (unsecured loan) (refer note 24)	**9,266**	–

No provisions for doubtful receivables have 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.

Terms and conditions

All transactions were made on normal terms and conditions and at market rates.

Refer note 24(c) for details relating to the loan from Virgin Samoa Limited.

41. Auditor's remuneration

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

	2013 $'000	2012 $'000
Audit and review services		
Auditors of the Company – KPMG		
– Audit and review[(1)]	**1,724**	1,902
Other services		
Auditors of the Company – KPMG		
– Other assurance services[(2)]	**275**	142
– Other services		
Taxation services	**–**	1,313
Other	**5**	563
	280	2,018

(1) 2012 comparatives have been restated to reflect the final total 2012 remuneration for audit related services agreed after the year ended 30 June 2012.

(2) Other assurance services relate to due diligence procedures, assurance services relating to sustainability and compliance with service level agreements, and other non-financial statement assurance procedures.

42. Deed of Cross Guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries identified in note 36 are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports, and Directors' Report.

It is a condition of the Class Order that the Company and each of the subsidiaries 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 the 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 have also given similar guarantees in the event that the Company is wound up. The Deed came into effect on 18 June 2007.

A consolidated statement of profit or loss, consolidated statement of comprehensive income and retained profits and consolidated statement of financial position, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee is set out as follows:

Consolidated statement of profit or loss	**2013 $m**	**2012 $m**
Revenue and income	**3,169.5**	3,154.6
Net operating expenses	**(3,437.8)**	(3,097.3)
(Loss)/profit before tax benefit/(expense) and net finance costs	**(268.3)**	57.3
Finance income	**41.5**	47.5
Finance costs	**(66.3)**	(64.4)
(Loss)/profit before income tax benefit/(expense)	**(293.1)**	40.4
Income tax benefit/(expense)	**35.8**	(19.0)
Net (loss)/profit	**(257.3)**	21.4

Consolidated statement of comprehensive income and retained profits		
(Loss)/profit for the year	**(257.3)**	21.4
Other comprehensive income/(loss) for the year, net of income tax		
– Items that may be reclassified subsequently to profit or loss	**75.5**	(119.4)
Total comprehensive income/(loss) for the year	**(181.8)**	(98.0)
Transfers to reserves	**(75.5)**	119.4
Retained profits at the beginning of the year	**293.6**	310.8
Movement in retained profits due to entities leaving the Deed Group	**–**	(38.6)
Retained profits at the end of the year	**36.3**	293.6

42. Deed of Cross Guarantee (continued)

Consolidated statement of financial position	2013 $m	2012 $m
Current assets		
Cash and cash equivalents	**529.6**	659.4
Trade and other receivables	**776.0**	833.8
Inventories	**26.5**	12.9
Derivative financial instruments	**96.8**	0.5
Other financial assets	**3.4**	8.1
Other current assets	**3.0**	2.6
Current tax asset	**1.0**	–
Total current assets	**1,436.3**	1,517.3
Non-current assets		
Trade and other receivables	**1.8**	–
Derivative financial instruments	**16.7**	0.1
Other financial assets	**370.8**	367.0
Deferred tax assets	**74.4**	31.3
Property, plant and equipment	**1,514.1**	1,564.6
Intangible assets	**326.8**	97.5
Other non-current assets	**18.7**	18.7
Total non-current assets	**2,323.3**	2,079.2
Total assets	**3,759.6**	3,596.5
Current liabilities		
Trade and other payables	**1,147.1**	875.5
Interest-bearing liabilities	**251.4**	139.1
Derivative financial instruments	**–**	36.1
Provisions	**99.8**	103.3
Unearned revenue	**285.8**	326.5
Total current liabilities	**1,784.1**	1,480.5
Non-current liabilities		
Trade and other payables	**9.0**	2.8
Interest-bearing liabilities	**575.9**	695.8
Derivative financial instruments	**9.3**	16.4
Provisions	**80.5**	50.6
Unearned revenue	**273.3**	299.8
Total non-current liabilities	**948.0**	1,065.4
Total liabilities	**2,732.1**	2,545.9
Net assets	**1,027.5**	1,050.6
Equity		
Share capital	**814.1**	655.6
Reserves	**177.1**	101.4
Retained profits	**36.3**	293.6
Total equity	**1,027.5**	1,050.6

43. Parent entity disclosures

As at, and throughout the financial year ended 30 June 2013, the parent company of the Group was Virgin Australia Holdings Limited.

(a) Financial results and position of the parent entity

	2013 $m	2012 $m
Result of the parent entity		
Profit for the year	**47.3**	57.3
Total comprehensive income for the year	**47.3**	57.3
Financial position of the parent entity at year end		
Current assets	**778.2**	772.9
Total assets	**1,411.0**	1,322.9
Current liabilities	**444.6**	563.2
Total liabilities	**444.6**	563.2
Total equity of the parent comprising of:		
Share capital	**814.8**	655.6
Share-based payments reserve	**16.9**	16.7
Retained earnings	**134.7**	87.4
Total equity	**966.4**	759.7

(b) Parent entity contingencies

The Company does not have any contingent assets or contingent liabilities at 30 June 2013 (2012: nil).

(c) Parent entity capital commitments for acquisition of property, plant and equipment

The Company does not have any capital commitments at 30 June 2013 (2012: nil).

(d) Parent entity guarantees in respect of debts 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 42.

44. Events subsequent to reporting date

(a) Acquisition of shareholding in Tiger Airways Australia Pty Limited

On 8 July 2013, the Group acquired 60% of the shareholding in Tiger Airways Australia Pty Limited. The purchase consideration of $35.0 million has been paid by the Group. In addition $5.0 million will be payable by Tiger Airways Australia Pty Limited to Tiger Airways Holdings Limited if performance targets are met within a 4.75 year period. After acquisition date, there is joint commitment by the Group and Tiger Airways Holdings Limited to invest up to $62.5 million (pro-rated based on the ownership interest) into the Tiger Airways Australia Pty Limited operation.

(b) Other

Subsequent to the end of the 2013 financial year, the Group has established new subordinated term loan facilities with Air New Zealand Limited (NZX: AIR), Etihad Airways P.J.S.C. and Singapore Airlines Limited (SGX: SIA) as part of a program to further supplement and diversify its funding sources. The facilities are for an amount of AUD $90.0 million in total, with pro-rata contributions from each shareholder based on their economic interest at the end of August 2013. The facilities are for a term of one year and are based on arms-length commercial terms.

Directors' declaration

1. In the opinion of the directors of Virgin Australia Holdings Limited (the Company):
   (a) the consolidated financial statements and notes that are set out on pages 76 to 153 and the Remuneration Report in the Directors' Report, are in accordance with the *Corporations Act 2001*, including:
      (i) giving a true and fair view of the Group's financial position as at 30 June 2013 and of its performance for the financial year ended on that date;
      (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
   (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the Company and the group entities identified in note 36 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418.
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 2013.
4. The directors draw attention to note 2(a) to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Neil Chatfield
Director

John Borghetti
Director

Dated at Sydney, 26 September 2013

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

Report on the financial report

We have audited the accompanying financial report of Virgin Australia Holdings Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2013, and consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 44 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

Independent auditor's report to the members of Virgin Australia Holdings Limited (continued)

Report on the remuneration report

We have audited the Remuneration Report included in pages 56 to 72 of the Directors' Report for the year ended 30 June 2013. 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 responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Virgin Australia Holdings Limited for the year ended 30 June 2013, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

A W Young
Partner

Sydney, 26 September 2013

ASX additional information

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below:

Shareholdings (as at 25 September 2013)

Substantial shareholders

The number of shares held by substantial shareholders and their associates is set out below:

Shareholder	Number of ordinary shares
Air New Zealand Associated Companies Limited	515,988,230
Singapore Airlines Limited	513,665,123
Etihad Airways P.J.S.C	452,378,223

Voting rights

Ordinary shares – refer to note 29 to the annual consolidated financial statements.

Options and rights – refer to note 39 to the annual consolidated financial statements.

Distribution of equity security holders

	Number of equity security holders
Category	Ordinary shares
1 – 1,000	17,892
1,001 – 5,000	16,139
5,001 – 10,000	4,081
10,001 – 100,000	4,843
100,001 and over	461
	43,416

20,734 shareholders hold less than a marketable parcel of ordinary shares[1].

On-market buy-back

There is no current on-market buy-back.

(1) This information is as at 31 August 2013.

ASX additional information (continued)

Shareholdings (as at 25 September 2013) (continued)

Twenty largest shareholders

Name	Number of ordinary shares held	Capital held %
Air New Zealand Associated Companies Limited	515,988,230	19.92
Singapore Airlines Limited	513,665,123	19.83
Etihad Airways P.J.S.C.	452,378,223	17.47
Covina Holdings Limited (Virgin Group)	321,973,973	12.43
Gresham Property Investments Limited	77,436,950	2.99
CU Nominees Pty Limited	56,294,826	2.17
HSBC Custody Nominees (Australia) Limited	55,363,453	2.14
National Nominees Limited	41,711,374	1.61
J P Morgan Nominees Australia Limited	39,566,806	1.53
Citicorp Nominees Pty Limited	37,142,543	1.43
BNP Paribas Noms Pty Ltd, DRP	19,427,571	0.75
CPU Share Plans Pty Limited, Virgin Blue KEPP A/C	11,536,654	0.45
PGA (Investments) Pty Ltd	10,000,000	0.39
AMP Life Limited	9,415,925	0.36
QIC Limited	8,560,431	0.33
Chesters Nominees Pty Ltd	7,000,000	0.27
Warbont Nominees Pty Ltd	6,957,415	0.27
Sandhurst Trustees Ltd, Endeavour Asset Management MDA	6,441,040	0.25
Just Super Co Pty Limited, Super Fund A/C	5,930,580	0.23
CPU Share Plans Pty Limited, VAH VPR Control A/C	5,362,200	0.21

Corporate directory

Company secretary

Mr Adam Thatcher

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
117 Victoria Street
West End
QLD 4101
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. The Home Exchange is Brisbane.

Other information

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

Sustainability – Flying for the future

About this report
This report presents a summary of Virgin Australia's sustainability progress and performance for the period 1 July 2012 through to 30 June 2013. This report encompasses the domestic and international operations of Virgin Australia and its associate Virgin Samoa. The Skywest Airlines Pte Limited group of entities has not been included in the scope of this report nor have Virgin Australia's alliance partnerships and the other Virgin Group businesses. For more information or to provide feedback on the sustainability content of this report please email sustainability@virginaustralia.com.

Sustainability
This is the third year Virgin Australia has reported to stakeholders on our performance and progress towards becoming a more sustainable business. The 2013 Annual Report continues to follow the Global Reporting Initiative (GRI) G3.1.

Our approach to sustainability
We recognise that our business operates within the triple context of society, our natural environment and the economy and that the financial performance of Virgin Australia is impacted by all three. By operating in a way that creates value for Virgin Australia as well as society, the environment and the broader economy, we will become a more competitive and profitable business well into the future.

We are committed to becoming a more sustainable business with a vision of sustainability leadership within the aviation industry. This is an important component of our business plan and progress continues on engaging our stakeholders, both internal and external, on sustainability and taking action to fulfil the objectives of our strategy and our policy intent.

A copy of Virgin Australia's sustainability policy can be downloaded from our website[1] and all our sustainability performance data can be found on page 162.

Further information on our corporate governance processes and ethical business practices can be found in the Directors' Report.

Engaging our stakeholders
Virgin Australia has a number of important stakeholder groups. These are identified below along with a brief overview of our channels of engagement. Our list of key stakeholders were identified and prioritised based on those groups and individuals who have invested in the organisation; those groups or individuals who can be significantly affected by our activities; and those who can affect our ability to implement strategies and achieve our objectives.

Assessing materiality
Materiality is a key sustainability reporting principle that ensures reporting reflects our significant economic, environmental and social impacts or issues that would substantively influence the assessments and decisions of our stakeholders. Material topics relevant to Virgin Australia are identified using a five-part materiality test, which included the consideration of:

1. Direct financial impacts
2. Policy related performance
3. Organisational peer based norms
4. Stakeholder behaviour and concerns
5. Societal norms

Each topic/issue is then prioritised using a materiality matrix that plotted issues according to their relative significance to stakeholders and the relative significance to Virgin Australia. The results were then reviewed and validated by the Virgin Australia Sustainability Committee.

Material issues identified by airline stakeholders

Environment	Commercial	Society and Community	People	Safety
Reducing climate change impacts	Product	Regional routes/ development	Workforce diversity	Operational and flight safety
Waste, recycling and resource consumption	Alliances	Indigenous programs	Australian jobs and investment	Occupational health and safety for staff and guests
Carbon offsetting	On time performance	Community investments and sponsorship	Learning and development	
Aircraft noise	Customer satisfaction	Procurement from Australian businesses	Work/life balance	
	Financial performance		Well being	
	Foreign ownership		Reward and recognition	
			Contractors	

Sustainable procurement and ethical corporate governance

(1) Available at www.virginaustralia.com/au/en/about-us/sustainability.

GRI performance indicators

Our vision
"To become a sustainability leader within the aviation industry"

Stakeholder Group	Our Engagement
Employees	Virgin Australia engages with staff through direct staff communications (e-mail and intranet), an annual staff engagement survey, employee road shows, internal team meetings and internal training and development.
Guests	Virgin Australia engages with Guests in a number of ways including through our Guest Relations team, websites, our Velocity frequent flyer program, social media, market based research and focus groups, the in-flight magazine, touch points throughout a Guest's journey and the Guest Contact Centre.
Shareholders and Investor Groups	Virgin Australia engages with investors through investor briefings, annual general meetings, ASX announcements, the Group's website, annual reports, sustainability reporting, and responding to investor group initiatives such as the Carbon Disclosure Project.
Governments and Regulators	Virgin Australia's engagement with governments and regulators is coordinated through the Group Executive, Government Relations. This includes direct engagement as well as participation in consultation processes, policy forums and advisory groups.
Community Groups	Virgin Australia engages with the broader community through our community partner program, our sponsorship program, Virgin Unite, annual reports, our websites, the mass media, social media and our Guest Contact Centre. Virgin Australia also directly engages with representatives from communities that surround airports through the Community Aviation Consultation Groups and other forums.
Non-Government Organisations (NGOs)	Virgin Australia engages directly with selected environmental NGOs in relation to sustainability reporting.
Unions	Virgin Australia engages directly with Union leaders on a regular basis on a range of topics, including health and safety and the negotiation of awards and Enterprise Bargaining Agreements (EBAs).
Suppliers	Suppliers are engaged directly by Virgin Australia from procurement, contract execution and ongoing contract management.

GRI Index
The following table indicates the location of the GRI sustainability performance indicators included within this report. The indicators that have been reported were selected from the GRI G3.1 Sustainability Reporting Guidelines on the basis of their materiality to our stakeholders and the business. The majority of indicators can be found in the data table following the financial statements.

GRI Reference	Topic	Page Reference
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings and payments to capital providers and governments	162
EN3	Direct energy consumption by primary energy source	162
EN4	Indirect energy consumption by primary source	162
EN16	Total direct and indirect greenhouse gas emissions by weight	162
EN22	Total weight of waste by type and disposal method	162
EN23	Total number and volume of significant spills	162
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	162
LA1	Total workforce by employment type, employment contract, and region, broken down by gender	163
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and gender	28 & 163
LA13	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity	31, 45 & 163
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	13 & 163

GRI performance indicators (continued)

Environment

Performance Indicator	GRI reference	Unit	2013	2012	2011	Notes
1. Energy Consumption						
Aviation fuel	EN3	'000 Litres	1,271,666*	1,205,297*	1,161,232	1
Aircraft engine oil	EN3	Litres	136,320	140,220	153,267	
Ground fuel – Diesel	EN3	Litres	533,673	429,259	597,134	2
Ground fuel – Petrol (ULP)	EN3	Litres	88,998	99,151	134,360	2
Ground fuel – Biodiesel	EN3	Litres	0	201	–	2
Ground fuel – Jet Kerosene	EN3	Litres	2,012	13,296	–	2
Electricity	EN4	kWh	19,852,936*	16,990,137*	15,838,394	3
Direct energy consumption	EN3	Gj	46,826,325*	44,380,836*	42,766,927	4
In-direct energy consumption	EN4	Gj	71,471*	61,164*	57,018	4
Total energy consumption	EN4	Gj	46,897,796*	44,442,001*	42,823,945	4
2. Emissions (CO2-e)						
Total CO2-e emissions	EN16	Tonnes CO2-e	3,277,298*	3,104,963*	2,991,486	5
Scope 1 emissions	EN16	Tonnes CO2-e	3,259,813*	3,089,551*	2,976,751	5
Scope 2 emissions	EN16	Tonnes CO2-e	17,484*	15,412*	14,735	5
Emissions offset by Guests		Tonnes CO2-e	54,462	65,971	65,491	6
3. Waste						
Waste to landfill (Australia only)	EN22	Tonnes	3,168	3,348	1,960	7
Waste diverted from landfill (Australia only)	EN22	Tonnes	114	101	102	7
Total paper recycled (Australia only)	EN22	Tonnes	115	102	–	7
Printer cartridges recycled (Australia only)	EN22	#	881	1,445	1,212	8
4. Other Environmental						
Total paper consumption (Australia only)		A4 reams	71,470	66,967	–	9
Significant spills – Occurrences	EN23	#	0	0	0	10
Aviation fuel jettison events		#	0	1	1	11
Aviation fuel jettison volume		'000 Litres	0	35.00	16.67	11
Number of fines	EN28	#	0	0	0	12
Value of fines	EN28	AUD $	0	0	0	12
Non-monetary sanctions	EN28	#	0	0	0	12
5. Efficiency measures						
Carbon Efficiency		kg CO2-e / RTK	1.07	0.93	0.95	13
Carbon Efficiency		Grams CO2-e / RPK	103.52*	99.96*	99.83	13
Fuel Efficiency		Litres / 100 RTK	41.48	36.01	36.94	13
Fuel Efficiency		Litres / 100 RPK	4.02*	3.88*	3.88	13

* Limited assurance obtained on EN3, EN4, EN16 and efficiency measures (grams CO2-e/RPK and litres of fuel/100RPK). Refer to the independent limited assurance report on page 166.
# Denotes number
– Denotes data unavailable

Economic

Performance Indicator	GRI reference	Unit	2013	2012	2011	Notes
1. Financial						
Revenue, income and finance income	EC1	AUD $m	4,040.4*	3,956.0*	3,307.10	14
Net operating expenditure including derivative gains/losses less labour and staff related costs	EC1	AUD $m	(3,148.5)*	(3,011.2)*	(2,575.50)	15
Labour and staff related costs	EC1	AUD $m	(976.1)*	(841.4)*	(742.1)	16
Finance costs – interest and finance charges paid/payable	EC1	AUD $m	(73.5)*	(88.4)*	(93)	17
Payments to governments (income tax)	EC1	AUD $m	0*	0*	0	18
Economic value retained	EC1	AUD $m	(157.7)*	15*	(103.5)	19
2. Community						
Red Jet donations and sponsorships	EC1	AUD $	117,350	212,000*	361,239	20
Other community donations and sponsorships	EC1	AUD $	349,960	345,667	64,435	20

* Limited assurance obtained on EC1. Refer to the independent limited assurance report on page 166.
# Denotes number
– Denotes data unavailable

GRI performance indicators (continued)

People

Performance Indicator	GRI reference	Unit	2013	2012	2011	Notes
1. Workforce						21
Full-time employees	LA1	#	7,023	7,006	6,159	22
Part-time employees	LA1	#	1,400	1,361	1,104	22
Australian based	LA1	#	7,904	7,813	6,735	23
New Zealand based	LA1	#	504	540	528	23
United States based	LA1	#	15	14	14	23
Total Employees	LA1	#	8,423	8,367	7,263	24
% part-time	LA1	%	16.62	16.27	15.2	
Personal Leave Rate	LA7	%	4.46	–	–	25
2. Health and Safety						26
Lost Time Injury Frequency Rate (LTIFR)	LA7	Rate	6.9	7.4	17.1	27
Occupational disease	LA7	#	5	9	3	28
3. Employee Diversity						29
Female employees	LA13	#	4,226	4,231	3,519	
Female employees	LA13	%	50.2	50.6	48.5	
Male employees	LA13	#	4,197	4,136	3,744	
Male employees	LA13	%	49.8	49.4	51.5	
Indigenous employees	LA13	#	82	81	38	30
Females in senior management positions	LA13	%	33.2	31.3	27.9	31
Females in non-executive director positions	LA13	#	1	1	1	32
Females key management personnel	LA13	%	37.5	29.4	26.7	33
Employees by age group						
16-24 Years	LA13	%	9.9	11.6	10.7	
25-34 Years	LA13	%	41.1	42.4	43.2	
35-44 Years	LA13	%	31.4	29.9	30.1	
45-54 Years	LA13	%	13.6	12.3	12.3	
55-64 Years	LA13	%	3.6	3.3	3.5	
Over 65 Years	LA13	%	0.4	0.4	0.3	
4. Guest Satisfaction						
On Time Performance – Departures	PR5	%	80.8	82.7	79.9	34
On Time Performance – Arrivals	PR5	%	78.4	80.6	78.7	34
Cancellations	PR5	%	1.6	1.3	2.0	35
Customer Satisfaction (Domestic Travellers)	PR5	%	70	72	71	36
Likelihood to Recommend (Domestic Travellers)	PR5	%	76	77	75	37

# Denotes number
– Denotes data unavailable

Footnotes to GRI performance indicators

Footnotes and definitions

1. Total volume of aviation fuel used by Virgin Australia and Virgin Samoa for domestic and international operations (group wide), based on fuel uplifted for each flight. 100% of Virgin Samoa fuel use is included in the scope[1].
2. Total volumes of ground fuel (unleaded petrol, diesel, biodiesel and turbine fuel) used in ground service equipment (GSE) at Australian airports where the airline is billed separately, including push back tugs, baggage conveyors, baggage tugs and ground power units. Biodiesel utilised in 2011 for trial[1].
3. Electricity consumption from facilities in Australia and New Zealand where it is metered separately and Virgin Australia is billed separately (i.e. excludes electricity incorporated in overheads in lease agreements)[1].
4. EN3 (direct energy consumption by primary energy source) includes aircraft fuel and engine oil (group wide), as well as unleaded petrol, diesel, turbine fuel and biodiesel (Australian operations only) used for ground operations. EN4 (indirect energy consumption by primary source) is limited to purchased electricity in Australia and New Zealand by Virgin Australia. Virgin Australia did not purchase any other forms of indirect energy including heating and cooling, steam, or nuclear energy. Direct and indirect energy (in gigajoules) is calculated based on the energy content of aviation fuel, ground fuel (unleaded petrol, diesel, biodiesel and turbine fuel) and electricity purchased by the Virgin Australia group of airlines. Virgin Australia has used the energy content factors published in the Australian Government's National Greenhouse and Energy Reporting (NGER) Technical Guidelines (July 2012), Table 2.4.2.B, page 125 and Table 7.2, page 425[1].
5. EN16 (total direct and indirect greenhouse gas emissions by weight) includes scope 1 emissions from aviation fuel and aircraft engine oil from international and domestic operations as well as ground fuel (unleaded petrol, diesel, biodiesel and turbine fuel) from airport operations in Australia. Scope 2 emissions include electricity use from Australian facilities where it is billed and metered separately. The Australian Government's NGER Technical Guidelines (July 2012), Table 2.4.2.B, page 125 and Table 7.2, page 425, have been used to calculate scope 1 and 2 emissions. Scope 2 emissions from New Zealand have been calculated according to the New Zealand domestic emissions factors – Guidance for Voluntary, Corporate Greenhouse Gas Reporting[1].
6. Total emissions voluntarily offset by Virgin Australia Guests using the Virgin Australia Carbon Offset Program. Carbon offset values (measured in tonnes of CO2 per passenger per sector) are based on an extensive life cycle assessment, which is updated annually using actual fuel burn and energy use data from the previous 12 months. Virgin Australia's Carbon Offset Program is certified under the Australian Government's National Carbon Offset Standard Carbon Neutral program[1].
7. EN22 (total weight of waste by type and disposal method) is limited to non-hazardous waste sent to landfill or recycled from Australian facilities and domestic airline services only. Total waste sent to landfill in Australia from Virgin Australia facilities where Virgin Australia is billed separately (i.e. it is not included in overheads in lease agreements or waste disposed at airports using shared waste facilities provided by airport operators). This is limited to aircraft waste at Sydney, Brisbane, Adelaide, Perth, Cairns, Canberra, Townsville, Rockhampton, Proserpine, Brisbane head office and domestic terminal building and our maintenance facilities in Brisbane and Melbourne. Total waste diverted from landfill (recycled) from Virgin Australia facilities where Virgin Australia is billed separately (i.e. it is not included in overheads in lease agreements or waste disposed of using shared waste facilities at airports). Paper recycled is limited to our Brisbane head office and domestic terminal building as well as paper recycling across all ports and facilities in Australia under contract with Recall[1].
8. Total number of toner bottles, cartridges and drums collected and recycled by Close the Loop from Virgin Australia facilities in Australia[1].
9. Consumption of office paper within the business for Australia only. Excludes paper used in the production of outsourced publications[1].
10. EN23 (total number of significant spills) includes the number of significant spills on airports relating to Virgin Australia group of airlines operations. A significant spill is defined as any spill of hazardous material (e.g. fuel, oil, hydraulic fluid, waste water etc) that is greater than 20 litres. During the 2013 financial year Virgin Australia had no spills that passed this test of significance[1].
11. Fuel jettison: The number and volume of fuel jettison events from our Boeing 777 and un-enhanced Airbus 330 fleet. Boeing 737, ATR-72, Embraer E190 and some Airbus 330 aircraft do not have capability to dump fuel[1].
12. EN28 (monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations) is limited to any fine and/or sanction for failure to comply with Australian national and state environmental laws and regulations[1].
13. Efficiency Measures: Fuel efficiency measured in litres of aviation fuel per 100 revenue tonne kilometres (RTK) and litres of aviation fuel per 100 revenue passenger kilometres (RPK). Carbon efficiency measured in grams of CO2-e per RTK and kilograms of CO2-e per RPK (total greenhouse gas emissions from EN16 have been used to calculate carbon efficiency)[1].
14. EC1 (economic performance): Amounts reported for Revenue, income and finance income are extracted from the audited consolidated financial statements. Please refer to the consolidated statement of profit or loss.
15. EC1 (economic performance): Amounts reported for Net operating expenditure, including derivative gains/losses less labour and staff related costs are extracted from the audited consolidated financial statements. Please refer to the consolidated statement of profit or loss. Derivative gains/losses represent ineffective cash flow hedges and non-designated derivatives as set out in the consolidated statement of profit or loss.
16. EC1 (economic performance): Amounts reported for Labour and staff related costs are extracted from the audited consolidated financial statements. Please refer to the consolidated statement of profit or loss.

Footnotes to GRI performance indicators (continued)

17. EC1 (economic performance): Amounts reported for Finance costs – interest and finance charges paid/payable are extracted from the audited consolidated financial statements. Please refer to note 10(a) of the consolidated financial statements. Amount represents the gross interest and finance charges paid/payable and incorporates amounts subsequently capitalised to aircraft and aeronautic related assets.
18. EC1 (economic performance): Amounts reported for payments to governments have been determined to be any income tax paid by Virgin Australia for the 2013 financial year. Virgin Australia claims refunds of transaction taxes (for example GST) paid to suppliers for in-country purchases of goods and services and collects GST in respect of certain sales to customers. These amounts are not included in payments to the government. The amount reported does not include deferred taxes.
19. EC1 (economic performance): Economic value retained is the sum of the amounts reported in the GRI Performance Indicator table for the financial indicators.
20. EC1 (economic performance): Total value of donations made by Red Jet on behalf of Virgin Australia in the 2013 financial year. Other community donations and sponsorships – monetary value of gratis flights provided to community organisations plus other donations made outside of Red Jet. Please refer to the Our Community section of this annual report for more information on Virgin Australia's community sponsorships and donations(1).
21. LA1 (GRI): total workforce by employment type, employment contract, and region, broken down by gender is limited to employment type (full-time or part-time) and region. LA1 does not include casual employees (of which there are 24) or contractors. A gender breakdown is reported at LA13(1).
22. LA1: Total number of employees as at 30 June 2013 by employment type – full-time or part-time(1)
23. LA1: Total number of employees (full-time and part-time) by region – those based in Australia, New Zealand (including Samoa) and the United States.
24. LA1: Total number of Virgin Australia team members (full-time and part-time combined). Does not include, casual employees or contractors(1).
25. LA7: Personal leave rate – The personal leave rate is a calculation of: Personal leave hours/(Total available hours-annual leave hours). Excludes casuals and international based team members. Personal leave encompasses all sick/bereavement/carers/family/special circumstances/URTI/sick leave/(maternity), both paid and unpaid. Previous years' figures not listed due to updated methodology(1).
26. LA7 (GRI): Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work related fatalities, by region and gender is limited to lost time injuries frequency rate (LTIFR) and occupational diseases. An injury/illness is considered to be work related if any of the following are considered to have contributed: any building, facility or workplace occupied, or managed by Virgin Australia; any occupational, educational, commercial or other Virgin Australia endorsed activity, regardless of location. Work related does not apply to leisure activities, or other activities performed out of hours over which Virgin Australia has no control(1).
27. LA7: Lost Time Injury Frequency Rate (LTIFR): Lost time injuries per million hours worked, where lost time was greater than four hours(1).
28. LA7: Occupational disease is defined as the number of accepted workers compensation claims related to hearing loss and mental health (including stress, anxiety, depression and post-traumatic stress disorder)(1).
29. LA13 (GRI): Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity is limited to total workforce broken down by gender, age group and indigenous employees as well as women in the following positions: Non-Executive Directors, Key Management Personnel and Senior Management Positions. These indicators of diversity are consistent with Virgin Australia's diversity policy and targets (see Directors' report). Indigenous employees refer to team members who have identified as Aboriginal or Torres Strait Islander. Does not include casual employees or contractors(1).
30. LA13: An indigenous employee only includes those who have identified as Aboriginal or Torres Strait Islander. Does not include casual employees or contractors(1).
31. LA13: Senior Management Positions are defined as CEO, Group Executive, General Manager and Manager(1). Previous years' referred to females in senior positions. (Metric includes the CEO, Executives, General Managers and Managers for 2011, 2012 and 2013.)
32. LA13: Non-Executive Directors(1).
33. LA13: Key Management Personnel are defined as Non-Executive Directors, CEO and any senior executive reporting directly to the CEO(1).
34. OTP: On Time Performance as measured by the percentage of flights departing or arriving within 15 minutes of scheduled departure or arrival time for Australian domestic operations(1).
35. Cancellations: The percentage of flights cancelled relative to total flights(1).
36. The Customer Satisfaction metric represents the proportion of recent guest surveys rating their overall satisfaction with their recent flight experience with Virgin Australia as 8, 9, or 10 on a 10 point scale, which is interpreted to mean 'very good or excellent'. Source: Virgin Australia, Guest Satisfaction Track(1).
37. The Likelihood to Recommend metric represents the proportion of recent guests indicating their likelihood of recommending Virgin Australia to friends, family members and/or colleagues as 8, 9, or 10 on a 10 point scale, which is interpreted to mean 'very likely or definitely will recommend'. Source: Virgin Australia, Guest Satisfaction Track(1).

(1) Performance indicator excludes the Skywest Airline Pte Limited group of entities.

Independent limited assurance report to Virgin Australia Holdings Limited

Our conclusion:

Based on the procedures performed, as identified below, we have not become aware of any matter that would lead us to believe that the selected sustainability parameters identified below, have not, in all material respects, been prepared in accordance with the requirements of the GRI G3.1 Guidelines and Virgin Australia Holdings Limited's calculation methodologies for the year ended 30 June 2013.

We have been engaged by Virgin Australia Holdings Limited to perform an engagement to provide limited assurance in respect of the selected sustainability parameters as identified below (the Assured Sustainability Parameters), which have been included in the Sustainability Supplement of Virgin Australia Holdings Limited's annual report (the Sustainability section) for the year ended 30 June 2013.

The Assured Sustainability Parameters covered by our limited assurance engagement are:

Assured Sustainability Parameters	Sustainability section
Direct energy consumption by primary energy source – Aviation fuel (EN3), excluding Ground Service Equipment (GSE) Fuel.	Page 162
Indirect energy consumption by primary source (EN4).	Page 162
Total direct and indirect greenhouse gas emissions by weight (EN16), excluding the emissions attributed to GSE Fuel.	Page 162
Financial performance indicators (EC1), excluding community donations and sponsorships.	Page 162
Reporting of efficiency measures for carbon and fuel (revenue passenger kilometre).	Page 162

Management's and directors' responsibility for the Assured Sustainability Parameters

The directors and management of Virgin Australia Holdings Limited are responsible for the preparation of the Assured Sustainability Parameters in accordance with the GRI G3.1 Guidelines as stated in the indicators protocols applicable to EN3, EN4, EN16, EC1 and Virgin Australia Holdings Limited's calculation methodology for reported fuel efficiency measured in litres of aviation fuel per 100 revenue passenger kilometres and carbon efficiency measured in CO2-e per revenue passenger kilometre. This responsibility includes establishing and maintaining internal controls relevant to the preparation of the Assured Sustainability Parameters that are free from material misstatement whether due to fraud or error.

Our responsibility

Our responsibility is to express a limited assurance conclusion to the directors and management on the preparation and presentation of the Assured Sustainability Parameters included in the Sustainability section of the annual report for the year ended 30 June 2013.

We conducted our limited assurance engagement in accordance with the Standard on Assurance Engagements ASAE 3000 *Assurance Engagements other than Audits and Reviews of Historical Financial Information* and other relevant Auditing and Assurance Standards, in order to state whether we have become aware of any matter that would lead us to believe that the Assured Sustainability Parameters have not, in all material respects, been prepared in accordance with the applicable elements of the GRI G3.1 Guidelines and Virgin Australia Holdings Limited's calculation methodologies.

ASAE 3000 requires us to comply with the requirements of the Code of Ethics for Professional Accountants as issued by the Accounting Professionals and Ethical Standards Board and plan and perform the engagement to obtain limited assurance about whether the Assured Sustainability Parameters are free from material misstatement.

KPMG

Independent limited assurance report to Virgin Australia Holdings Limited (continued)

A limited assurance engagement on sustainability information consists of making enquiries, primarily of persons responsible for the management, monitoring and preparation of the Assured Sustainability Parameters, and applying analytical and other evidence gathering procedures, as appropriate. These procedures included the following:

- Interviews with and enquiries of relevant staff responsible for the preparation of the Assured Sustainability Parameters including obtaining an understanding of the design and implementation of the systems and methods used to collect and process the Assured Sustainability Parameters, including the aggregation of the reported information;
- Interviews and enquiries with senior management and relevant staff at corporate and selected business unit level concerning sustainability strategy and policies for material issues, and the implementation of these across the business;
- Interviews and enquiries with senior management to gain an understanding of Virgin Australia Holdings Limited's processes for determining material issues for Virgin Australia Holdings Limited's key stakeholder groups;
- Performing analytical procedures to determine whether the Assured Sustainability Parameters are in line with our overall knowledge of, and experience with, the sustainability performance of Virgin Australia Holdings Limited; and
- Comparing the Assured Sustainability Parameters to relevant underlying sources on a sample basis.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement or an audit conducted in accordance with Australian Auditing and Assurance Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit or a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance or audit opinion.

This report has been prepared for Virgin Australia Holdings Limited. We disclaim any assumption of responsibility for any reliance on this report, or the Assured Sustainability Parameters to which it relates, to any person other than Virgin Australia Holdings Limited, or for any purpose other than that for which it was prepared.

Independence

In conducting our engagement, we have complied with the applicable ethical requirements, including independence requirements of the Code of Ethics for Professional Accountants issued by the Australian Accounting Professional and Ethical Standards Board.

KPMG

KPMG

Brisbane, 26 September 2013

This report has been printed on Revive Pure 100% Recycled Silk stock – an environmentally friendly paper and production process. It complies with Virgin Australia's sustainability objectives.