ASX RELEASE

ASX Market Announcements Office
Australian Securities Exchange
20 Bridge Street
Sydney NSW 2000

VIRGIN AUSTRALIA HOLDINGS LIMITED (ASX: VAH) 1H20 RESULTS

26 February 2020: Attached for release to the market is the Appendix 4D and Interim Financial Report for the half year ended 31 December 2019.

This announcement was authorised for release by the Virgin Australia Holdings Limited Board.

For further information please contact:

Media
Jace Armstrong
Senior Manager Public Affairs
M: 0481 420 765
E: publicaffairs@virginaustralia.com

Analysts/Investor Relations
Steven Fouracre
Group Treasurer
M: 0417 485 110
E: investor.relations@virginaustralia.com

Virgin Australia Holdings Limited
56 Edmondstone Road, Bowen Hills QLD 4006

Virgin Australia Holdings Limited

Appendix 4D and Interim Financial Report

For the half-year ended 31 December 2019

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

Contents

ASX Appendix 4D

For the half-year ended 31 December 2019

The results for announcement to the market for Virgin Australia Holdings Limited (VAH or the Company) and its subsidiaries (the Group) and the Group's interests in associates for the period 1 July 2019 to 31 December 2019 and the comparative period 1 July 2018 to 31 December 2018 are detailed below. A commentary on the results is contained in the Australian Stock Exchange (ASX) release.

Results for announcement to the market

	31 December 2019 $m	31 December 2018 $m	Change $m	Change %
Revenue and income	**3,118.2**	3,071.0	**47.2**	**1.5**
Statutory profit/(loss) after tax	**(88.6)**	73.8	**(162.4)**	**(220.1)**
Statutory profit/(loss) after tax attributable to owners of the Company	**(97.3)**	54.8	**(152.1)**	**(277.6)**

Dividends

No dividends were declared or paid during the half-year ended 31 December 2019 or during the prior corresponding period.

Equity distributions of $46.0 million were paid to non-controlling interests during the half-year ended 31 December 2019 (31 December 2018: $29.1 million).

Net tangible assets

	31 December 2019	30 June 2019
Net assets/(liabilities) attributable to owners of the Company ($m)	**(1,599.6)**	589.7
Net tangible assets/(liabilities) attributable to owners of the Company ($m)	**(2,238.5)**	(32.4)
Ordinary shares (m)	**8,441.8**	8,441.8
Net assets/(liabilities) attributable to owners of the Company per ordinary share ($)	**(0.19)**	0.07
Net tangible assets/(liabilities) attributable to owners of the Company per ordinary share ($)	**(0.27)**	0.00

Details of associates

The Company holds a 49 per cent (31 December 2018: 49 per cent) ownership interest in Airline Samoa Limited (formerly Virgin Samoa Limited). Operations ceased in November 2017 and the net assets were distributed to the shareholders in the prior financial year.

Directors' report

The directors present their report together with the consolidated interim financial statements of the Group comprising Virgin Australia Holdings Limited (VAH or the Company) and its subsidiaries (the Group) for the half-year ended 31 December 2019 and the auditor's review report thereon.

1. Directors

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

Name	Position	Period of directorship
Ms Elizabeth Bryan AM	Chairman and Independent Non-Executive Director	Current, appointed as Chairman and Director 20 May 2015
Mr Paul Scurrah	Managing Director and Chief Executive Officer	Current, appointed 25 March 2019
Mr Trevor Bourne	Independent Non-Executive Director	Current, appointed 1 January 2018
Mr Mark Chellew	Independent Non-Executive Director	Ceased, resigned 28 January, 2020
Mr Ken Dean	Independent Non-Executive Director	Current, appointed 1 December 2016
Mr Ray Gammell	Non-Executive Director	Current, appointed 20 December 2018
Mr Hou Wei	Non-Executive Director	Current, appointed 28 May 2019
Sir Angus Houston	Independent Non-Executive Director	Current, appointed 12 December 2018
Mr Lan Xiang	Non-Executive Director	Ceased, resigned 27 September 2019
Mr Warwick Negus	Non-Executive Director	Current, appointed 3 January 2017
Ms Judith Swales	Independent Non-Executive Director	Current, appointed 29 May 2019
Mr Marvin Tan	Non-Executive Director	Current, appointed 1 January 2016
Mr Kevin Xing	Non-Executive Director	Current, appointed 27 September 2019
Mr Du Ming	Alternate Director Mr Hou Wei	Current, appointed 28 May 2019
Mr Tan Pee Teck	Alternate Director for Mr Marvin Tan	Current, appointed 1 January 2016
Mr Wu An	Alternate Director for Mr Lan Xiang (prior to 27 September 2019) Mr Kevin Xing (from 27 September 2019)	Current, appointed 24 July 2017

2. Review of operations

Net loss after income tax attributable to owners of the Company for the half-year ended 31 December 2019 was $97.3 million, a decline of $152.1 million from a profit of $54.8 million for the half-year ended 31 December 2018.

Revenue and income increased 1.5 per cent from $3,071.0 million for the half-year ended 31 December 2018 to $3,118.2 million for the half-year ended 31 December 2019.

Net operating expenditure increased 3.8 per cent from $2,903.8 million for the half-year ended 31 December 2018 to $3,013.0 million for the half-year ended 31 December 2019.

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

The lead auditor's independence declaration is set out on page 6 and forms part of the directors' report.

4. Rounding

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

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

Elizabeth Bryan
Director

Paul Scurrah
Director

Dated at Brisbane, 25 February 2020

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

To the Directors of Virgin Australia Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Virgin Australia Holdings Limited for the half-year ended 31 December 2019 there have been:

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

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Trent Duvall

Partner

Sydney, 25 February 2020

Consolidated statement of profit or loss

For the half-year ended 31 December 2019

	Note	31 December 2019 $m	31 December 2018[1] $m
Revenue and income			
Airline passenger revenue		**2,850.9**	2,805.6
Freight revenue		**62.8**	66.6
Loyalty program revenue		**202.6**	197.3
Other income		**1.9**	1.5
Revenue and income		**3,118.2**	3,071.0
Operating expenditure			
Aircraft rentals		**(5.8)**	(190.7)
Airport charges, navigation and station operations		**(591.9)**	(569.3)
Contract and other maintenance expenses		**(120.3)**	(123.6)
Commissions and other marketing and reservations expenses		**(251.0)**	(254.9)
Fuel and oil		**(645.4)**	(605.4)
Labour and staff related expenses		**(710.7)**	(668.3)
Write off of property, plant and equipment		**(31.6)**	-
Other expenses from ordinary activities		**(337.0)**	(313.5)
Depreciation and amortisation		**(317.3)**	(178.1)
Ineffectiveness on cash flow hedges		**(2.0)**	-
Net operating expenditure		**(3,013.0)**	(2,903.8)
Profit before net finance costs and tax		**105.2**	167.2
Finance income		**11.8**	11.8
Finance costs		**(205.6)**	(91.3)
Net finance costs		**(193.8)**	(79.5)
Profit/(loss) before tax		**(88.6)**	87.7
Income tax expense	2(b)	**-**	(13.9)
Profit/(loss)		**(88.6)**	73.8
Attributable to:			
Owners of the Company		**(97.3)**	54.8
Non-controlling interests		**8.7**	19.0
		(88.6)	73.8

Earnings per share:	**Cents**	Cents
Basic earnings per share	**(1.2)**	0.6
Diluted earnings per share	**(1.2)**	0.6

(1) The Group has initially applied AASB 16 at 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application.

The consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

Consolidated statement of profit or loss and other comprehensive income

For the half-year ended 31 December 2019

	31 December 2019 $m	31 December 2018[(1)] $m
Profit/(loss)	**(88.6)**	73.8
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations (nil related tax)	**2.7**	28.8
Effective portion of changes in fair value of cash flow hedges	**10.0**	(80.1)
Net change in fair value of cash flow hedges transferred to profit or loss	**(29.1)**	(128.3)
Effective portion of changes in fair value of cash flow hedges (time value of options)	**(35.8)**	(61.4)
Net change in fair value of cash flow hedges transferred to profit or loss (time value of options)	**27.6**	27.0
Net change in fair value of cash flow hedges transferred to initial carrying value of hedged item	**0.3**	(0.3)
Income tax benefit on other comprehensive income	**8.1**	72.9
Other comprehensive loss, net of tax	**(16.2)**	(141.4)
Total comprehensive loss	**(104.8)**	(67.6)
Attributable to:		
Owners of the Company	**(113.5)**	(86.6)
Non-controlling interests	**8.7**	19.0
	(104.8)	(67.6)

(1) The Group has initially applied AASB 16 at 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application.

The consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

As at 31 December 2019

	Note	31 December 2019 $m	30 June 2019[1] $m
Current assets			
Cash and cash equivalents		**1,107.6**	1,740.0
Receivables		**224.0**	268.7
Inventories		**54.7**	51.3
Derivative financial instruments		**34.0**	71.5
Other financial assets		**64.6**	31.2
Other		**-**	2.6
Total current assets		**1,484.9**	2,165.3
Non-current assets			
Receivables		**130.4**	182.6
Derivative financial instruments		**5.2**	13.6
Other financial assets		**199.7**	255.7
Deferred tax assets	2(b)	**66.2**	57.8
Property, plant and equipment	3(a)	**4,323.3**	3,202.1
Intangible assets	3(b)	**572.7**	580.7
Other		**-**	10.4
Total non-current assets		**5,297.5**	4,302.9
Total assets		**6,782.4**	6,468.2
Current liabilities			
Payables		**700.3**	929.1
Interest-bearing liabilities	4(a)	**542.2**	771.9
Derivative financial instruments		**21.2**	14.8
Provisions		**313.4**	255.5
Unearned revenue		**1,187.0**	1,262.7
Other		**2.7**	2.9
Total current liabilities		**2,766.8**	3,236.9
Non-current liabilities			
Payables		**2.5**	2.7
Interest-bearing liabilities	4(a)	**4,812.4**	2,256.9
Derivative financial instruments		**35.6**	2.8
Provisions		**760.6**	339.8
Other		**4.1**	10.2
Total non-current liabilities		**5,615.2**	2,612.4
Total liabilities		**8,382.0**	5,849.3
Net assets/(liabilities)	1(c)	**(1,599.6)**	618.9
Equity			
Share capital		**2,238.5**	2,238.5
Reserves		**(617.7)**	117.6
Retained earnings		**(3,220.4)**	(1,766.4)
Equity attributable to the owners of the Company		**(1,599.6)**	589.7
Non-controlling interests		**-**	29.2
Total equity		**(1,599.6)**	618.9

(1) The Group has initially applied AASB 16 at 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application.

The consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the half-year ended 31 December 2019

	Note	Share capital $m	Foreign currency translation reserve $m	Hedge reserve $m	Option time value reserve $m	Share-based payments reserve $m	Non-controlling interests' contribution reserve[1] $m	Retained earnings $m	Attributable to owners of the Company $m	Non-controlling interests $m	Total equity $m
Balance at 1 July 2019		2,238.5	(92.8)	14.8	(23.7)	16.1	203.2	(1,766.4)	589.7	29.2	618.9
Adjustment on initial application of AASB 16	*1(e)*	-	-	-	-	-	-	(1,356.7)	(1,356.7)	-	(1,356.7)
Adjusted balance at 1 July 2019		2,238.5	(92.8)	14.8	(23.7)	16.1	203.2	(3,123.1)	(767.0)	29.2	(737.8)
Profit/(loss)		-	-	-	-	-	-	(97.3)	(97.3)	8.7	(88.6)
Other comprehensive income, net of tax											
Foreign currency translation		-	2.7	-	-	-	-	-	2.7	-	2.7
Effective portion of changes in fair value of cash flow hedges		-	-	7.0	(25.0)	-	-	-	(18.0)	-	(18.0)
Net change in fair value of cash flow hedges transferred to profit or loss		-	-	(20.4)	19.3	-	-	-	(1.1)	-	(1.1)
Net change in fair value of cash flow hedges transferred to initial carrying value of hedged item		-	-	0.2	-	-	-	-	0.2	-	0.2
Total other comprehensive income, net of tax		-	2.7	(13.2)	(5.7)	-	-	-	(16.2)	-	(16.2)
Total comprehensive income/(loss)		-	2.7	(13.2)	(5.7)	-	-	(97.3)	(113.5)	8.7	(104.8)
Transactions with owners, recorded directly in equity, net of tax											
Acquisition of non-controlling interests[2]		-	-	-	-	-	(714.3)	-	(714.3)	3.2	(711.1)
Income tax reserve[3]		-	-	-	-	-	(4.9)	-	(4.9)	4.9	-
Equity distributions		-	-	-	-	-	-	-	-	(46.0)	(46.0)
Share-based payment transactions		-	-	-	-	0.1	-	-	0.1	-	0.1
Total transactions with owners, net of tax		-	-	-	-	0.1	(719.2)	-	(719.1)	(37.9)	(757.0)
Balance at 31 December 2019		2,238.5	(90.1)	1.6	(29.4)	16.2	(516.0)	(3,220.4)	(1,599.6)	-	(1,599.6)

(1) The non-controlling interests' contribution reserve represents the excess of consideration received or paid over and above the carrying value of net assets attributable to equity instruments when sold to or acquired from non-controlling interests. It also includes the Company's non-reciprocal capital contributions in relation to tax.

(2) The Group acquired the remaining non-controlling interests in Velocity Frequent Flyer Holdco Pty Ltd on 26 November 2019. Refer to note 2(c) for further information.

(3) This includes the non-controlling interests' share of non-reciprocal contributions by the Company in relation to tax.

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity (continued)

For the half-year ended 31 December 2019

	Share capital $m	Foreign currency translation reserve $m	Hedge reserve $m	Option time value reserve $m	Share-based payments reserve $m	Non-controlling interests' contribution reserve[1] $m	Retained earnings $m	Attributable to owners of the Company $m	Non-controlling interests $m	Total equity $m
Balance at 1 July 2018	2,238.9	(138.0)	169.9	(4.9)	16.1	225.2	(1,415.8)	1,091.4	3.6	1,095.0
Adjustment on initial application of AASB 9 (net of tax)	-	-	-	-	-	-	(1.2)	(1.2)	-	(1.2)
Adjustment on initial application of AASB 15 (net of tax)	-	-	-	-	-	-	(9.3)	(9.3)	6.3	(3.0)
Adjusted balance at 1 July 2018	2,238.9	(138.0)	169.9	(4.9)	16.1	225.2	(1,426.3)	1,080.9	9.9	1,090.8
Profit	-	-	-	-	-	-	54.8	54.8	19.0	73.8
Other comprehensive income, net of tax										
Foreign currency translation	-	28.8	-	-	-	-	-	28.8	-	28.8
Effective portion of changes in fair value of cash flow hedges	-	-	(56.1)	(43.0)	-	-	-	(99.1)	-	(99.1)
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	(89.8)	18.9	-	-	-	(70.9)	-	(70.9)
Net change in fair value of cash flow hedges transferred to initial carrying value of hedged item	-	-	(0.2)	-	-	-	-	(0.2)	-	(0.2)
Total other comprehensive income, net of tax	-	28.8	(146.1)	(24.1)	-	-	-	(141.4)	-	(141.4)
Total comprehensive income/(loss)	-	28.8	(146.1)	(24.1)	-	-	54.8	(86.6)	19.0	(67.6)
Transactions with owners, recorded directly in equity, net of tax										
Income tax reserve[2]	-	-	-	-	-	(5.7)	-	(5.7)	5.7	-
Equity distributions	-	-	-	-	-	-	-	-	(29.1)	(29.1)
Share-based payment transactions	(0.6)	-	-	-	-	-	-	(0.6)	-	(0.6)
Total transactions with owners, net of tax	(0.6)	-	-	-	-	(5.7)	-	(6.3)	(23.4)	(29.7)
Balance at 31 December 2018	2,238.3	(109.2)	23.8	(29.0)	16.1	219.5	(1,371.5)	988.0	5.5	993.5

(1) The non-controlling interests' contribution reserve represents the excess of consideration received over and above the carrying value of net assets attributable to equity instruments when acquired by non-controlling interests and non-reciprocal capital contributions by the Company in relation to tax.

(2) This includes the non-controlling interests' share of non-reciprocal contributions by the Company in relation to tax.

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

For the half-year ended 31 December 2019

	Note	31 December 2019[1,2] $m	31 December 2018[1] $m
Cash flows from operating activities			
Cash receipts from customers		**3,358.8**	3,337.0
Cash payments to suppliers and employees		**(3,097.3)**	(3,060.6)
Cash generated from operating activities		**261.5**	276.4
Cash payments for business restructuring expenses		**(62.4)**	(13.4)
Net cash from operating activities		**199.1**	263.0
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(274.4)**	(242.2)
Proceeds on disposal of property, plant and equipment[3]		**131.8**	2.6
Acquisition of intangible assets		**(19.1)**	(29.1)
Payments for other deposits		**(22.4)**	(16.8)
Proceeds from other deposits		**61.4**	21.9
Net cash used in investing activities		**(122.7)**	(263.6)
Cash flows from financing activities[3]			
Finance income received		**11.8**	11.8
Finance costs paid		**(172.1)**	(81.1)
Proceeds from borrowings		**1,298.2**	169.8
Repayment of borrowings and lease principal		**(1,063.0)**	(265.5)
Payments of transaction costs related to borrowings		**(26.3)**	(3.9)
Acquisition of non-controlling interests	2(c)	**(711.1)**	-
Net costs of share buy-back		**-**	(0.7)
Equity distributions paid to non-controlling interests		**(46.0)**	(29.1)
Net cash used in financing activities		**(708.5)**	(198.7)
Net decrease in cash and cash equivalents		**(632.1)**	(199.3)
Cash and cash equivalents at 1 July		**1,740.0**	1,415.5
Effect of exchange rate fluctuations on cash and cash equivalents		**(0.3)**	35.3
Cash and cash equivalents at 31 December		**1,107.6**	1,251.5

(1) The Group has initially applied AASB 16 at 1 July 2019, using the modified retrospective approach. Under this approach, the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application and comparative information in relation to lease payments is not restated. Lease payments recognised as an expense in the comparative period are presented within cash generated from operating activities. Lease payments recognised as a repayment of principal in the current period are presented within cash flows from financing activities. From 1 July 2019 the Group has classified finance income received and finance costs paid as financing cash flows rather than operating cash flows as these classifications provide more relevant and reliable information in relation to the effects of these transactions. The comparative has been reclassified to be consistent with the current period presentation but not restated.

(2) Acquisitions of property, plant and equipment of $238.2 million were financed by new leases. These are non-cash transactions and are therefore excluded from the statement of cash flows.

(3) The Group disposed of aircraft through sale and lease back transactions during the period. A portion of the gain on sale was recognised as an increase in the right-of-use asset relating to the new leases.

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

Condensed notes to the consolidated interim financial statements

For the half-year ended 31 December 2019

1. Basis of preparation

The consolidated interim financial statements were authorised for issue by the Board of Directors (Board) on 25 February 2020.

(a) Reporting entity

Virgin Australia Holdings Limited (VAH or the Company) is a for-profit company incorporated and domiciled in Australia. It is primarily involved in the airline industry, both domestic and international. The consolidated interim financial statements of the Company as at and for the half-year ended 31 December 2019 comprise the Company and its subsidiaries (the Group).

(b) Basis of accounting and statement of compliance

The consolidated interim financial statements have been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. The consolidated interim financial statements do not include all the information required for a complete set of annual financial statements. The consolidated interim financial statements should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 30 June 2019 which are available upon request from the Company's registered office at 56 Edmondstone Road, Bowen Hills, Queensland, or at www.virginaustralia.com.

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

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

(c) Net liability position and basis of preparation

At 31 December 2019, the Group's liabilities exceeded its assets by $1,599.6 million (30 June 2019: assets exceeded liabilities by 618.9 million). The adoption of AASB 16 at 1 July 2019 resulted in an increase of $1,356.7 million in the net liability position at 31 December 2019, due mainly to the recognition of future lease payments as liabilities which exceeded the related right of use assets due to the different measurement methods applied to each (refer note 1(e)). The Group's acquisition of the non-controlling interests in Velocity Frequent Flyer Holdco Pty Ltd (Velocity) during the half year (refer note 2(c)) contributed $711.1 million to the net liability position. This acquisition was accounted for as a transaction with owners recognised directly in equity with the assets and liabilities of Velocity continuing to be measured in the Group's financial statements at their historical cost rather than being restated to fair value at the date of acquiring the non-controlling interests.

The Group's current liabilities exceeded its current assets as at 31 December 2019 by $1,281.9 million (30 June 2019: $1,071.6 million) including a current liability for unearned revenue of $1,187.0 million (30 June 2019: $1,262.7 million). Unearned revenue includes revenue received in advance which has been deferred in the statement of financial position until carriage is performed. The increase in the net current liability position since 30 June 2019 was driven by the impact of implementing AASB 16, whereby a portion of the lease liability ($370.5 million) is recognised as current, whereas the corresponding asset is treated as non-current.

The Group has a cash balance of $1,107.6 million at 31 December 2019 (30 June 2019 $1,740.0 million) which includes unrestricted cash at 31 December 2019 of $900.3 million (30 June 2019 $1,330.3 million). The Group also has $451.6 million of committed undrawn financing facilities at 31 December 2019 of which $435.8 million has been fully drawn subsequent to half-year end to fund repayment of existing debt of $285.5m and provide additional working capital. The next significant debt maturity for the Group is a US$350.0 million facility, due in October 2021.

The consolidated interim financial statements have been prepared on a going concern basis which is supported by a risk adjusted forecast of future cash flows. These cash flow forecasts incorporate on-going benefits expected to be delivered from the Group's strategic and cost management initiatives that management commenced implementing during the half-year.

Subsequent to half-year end, the global aviation market has been adversely affected by the outbreak of COVID19. The Australian government has imposed travel restrictions on passengers travelling from China to Australia. Whilst VAH does not offer direct China routes, Group revenue and forward bookings have been adversely impacted from declines in domestic travel legs of international visitors as well as bookings on the Hong Kong route (which, as announced by the Group on 6 February 2020, will cease in March 2020). The Group has performed a range of sensitivity analyses to forecast the ongoing impact of the outbreak over a range of alternate timelines as well as including a range of planned operational responses that are within the Group's control to mitigate the impact on its projected earnings and cash flows. This analysis supports that the Group will continue as a going concern and be able to meet its obligations as and when they fall due over the forthcoming 12 month period.

The cash flow projections used in the analysis are subject to uncertainty as they are based on the Group's best estimate of the impacts of the COVID19 outbreak using information available at the time of preparation and by its nature, include forward looking assumptions. In the event the impacts are more severe or prolonged than anticipated in the projections, management has identified further operational responses and/or alternate funding initiatives that can be implemented to mitigate the impact on the Group's financial position and its financial performance and cash flows.

1. Basis of preparation (continued)

(d) Critical accounting estimates and judgements

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

During the half-year ended 31 December 2019, the Group decreased maintenance provisions by $35.0 million, following the re-assessment of the cost estimate of its end-of-lease obligations. Additional maintenance provisions were also recognised to reflect the cost of lease return conditions on a straight-line basis over the life of the underlying leases, following the transition to AASB 16. All other key judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are consistent with those applied to the consolidated financial statements as at and for the year ended 30 June 2019.

Except as described in the section below, the accounting policies applied by the Group in the consolidated interim financial statements are consistent with those applied in the consolidated financial statements as at and for the year ended 30 June 2019.

(e) Change in significant accounting policy - AASB 16 *Leases* (AASB 16)

Definition and recognition of leases

AASB 16 replaces AASB 117 *Leases* (AASB 117) and Interpretation 4 *Determining whether an Arrangement contains a Lease* (Interpretation 4). The Group has adopted AASB 16 from 1 July 2019 using the modified retrospective approach, with the cumulative effect of initially applying the standard recognised as an adjustment to retained earnings at 1 July 2019. Accordingly, the information for the comparative period has been presented, as previously reported, under AASB 117 and Interpretation 4.

The Group leases assets, including aircraft, engines, real estate, ground support equipment and aircraft spare parts. A description of the key accounting policies applied prior to and after adoption of AASB 16 follows. Previously, the Group determined at contract inception whether an arrangement was or contained a lease in accordance with Interpretation 4. Under AASB 16, a contract is a lease if it conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

Prior to the adoption of AASB 16, the Group classified those lessee contracts that it determined were leases under Interpretation 4 as either finance leases or operating leases. A lease was classified as a finance lease, with an asset and liability recognised on balance sheet, if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group. All other leases were classified as operating leases and were recognised as an expense over the lease term.

Upon adoption of AASB 16, the Group applied a single on-balance sheet accounting model for all lessee contracts, except for short-term leases and leases of low-value assets which continue to be recognised as an expense on a straight-line basis over the lease term, in accordance with the recognition exemptions in AASB 16. As a result of the adoption of AASB 16, the Group has recognised right-of-use (ROU) assets (representing its rights to use the underlying assets) and lease liabilities (representing its obligation to make lease payments).

ROU assets are presented in property, plant and equipment and are initially measured at an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments. ROU assets are subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for certain remeasurements of the lease liability. Each separately identifiable component of a ROU asset is depreciated over the lesser of the lease term or the component's useful life.

ROU assets were recognised on transition at 1 July 2019 as if AASB 16 had been applied since the lease commencement date, discounted using the incremental borrowing rate at the date of initial application.

Lease liabilities are presented in interest-bearing liabilities and are initially measured at the present value of the lease payments, discounted using the incremental borrowing rate. The lease liability is subsequently increased to reflect the accretion of interest and reduced for lease payments made. The carrying amount of lease liabilities is remeasured if there is a change in the scope, lease term, in-substance fixed lease payments or assessment to purchase the underlying asset. When the lease liability is remeasured, the corresponding adjustment is reflected in the ROU asset, or profit and loss if the ROU asset is already reduced to zero. The Group remeasures its foreign currency-denominated lease liabilities using the exchange rate at each reporting date. Any changes to the lease liabilities due to exchange rate changes are recognised in profit or loss. Variable lease payments that do not depend on an index or a rate are recognised as an expense in the period during which the event or condition that triggers the payment occurs.

The Group's lessor accounting policy remains similar under AASB 16.

Contracts previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application of AASB 16 for leases previously classified as finance leases. Therefore, the ROU assets and lease liabilities equal the lease assets and liabilities recognised under AASB 117 and the requirements of AASB 16 were applied to these leases from 1 July 2019.

1. Basis of preparation (continued)

(e) Change in significant accounting policy - AASB 16 *Leases* (AASB 16) (continued)

Contracts previously assessed as not containing a lease

The Group has re-assessed a number of arrangements previously assessed as not containing a lease, which will now be accounted for under AASB 16. Some of these arrangements involve wholly variable payments or relate to leases of low value assets, and will therefore not result in the recognition of ROU assets and lease liabilities on the balance sheet as they meet the recognition exemptions in AASB 16.

Significant judgement in determining the lease term of contracts with renewal options

In November 2019, the International Financial Reporting Standards Interpretations Committee (IFRIC) issued a final agenda decision, Lease Term and Useful Life of Leasehold Improvements, on how lease term of a cancellable or renewable lease should be determined when applying AASB 16 Leases. IFRIC clarifies that the broader economics and not only the contractual termination payments should be considered in determining lease terms. The adoption of this clarification may increase ROU assets and lease liabilities in the statement of financial position and depreciation and interest expense in the statement of profit or loss.

The impact of the change is not reasonably estimable at 31 December 2019 as the Group is yet to complete its assessment of the impact of the IFRIC Agenda Decision. The Group expects to adopt this Agenda Decision in its consolidated financial statements for the year ended on 30 June 2020.

Practical expedients

The Group has elected to adopt the following practical expedients on transition:

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

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

Maintenance accounting

In assessing the impact of AASB 16, the Group also considered the interaction of the new standard with the Group’s existing maintenance accounting policy which capitalises and depreciates maintenance on leased assets that occurs during the lease term. Following the identification of the component of the ROU assets and analysis of restoration and return obligations associated with these components, an additional maintenance provision was recognised as part of the transition. This provision reflects the recognition of the cost of lease return conditions over the life of the component.

The cost of major cyclical maintenance and modifications to leased aircraft are capitalised as leasehold improvements where future economic benefits are expected and depreciated over the shorter of the remaining lease term, the estimated useful life of the improvement or the time to the next major maintenance event.

1. Basis of preparation (continued)

(e) Change in significant accounting policy - AASB 16 *Leases* (AASB 16) (continued)

Transitional impacts

The following table summarises the impact of transition to AASB 16 on the consolidated statement of financial position at 1 July 2019.

	Carrying amount at 30 June 2019 $m	Impact of adopting AASB 16 at 1 July 2019 $m	Carrying amount at 1 July 2019[1] $m
Current assets			
Receivables	268.7	(37.8)	230.9
Other	2.6	(2.6)	-
Non-current assets			
Receivables	182.6	(64.0)	118.6
Other financial assets	255.7	16.3	272.0
Property, plant and equipment	3,202.1	1,082.3	4,284.4
Other	10.4	(10.4)	-
Current liabilities			
Interest-bearing liabilities	771.9	365.0	1,136.9
Provisions	255.5	53.1	308.6
Non-current liabilities			
Interest-bearing liabilities	2,256.9	1,549.0	3,805.9
Provisions	339.8	378.2	718.0
Other	10.2	(4.8)	5.4
Equity			
Retained earnings	(1,766.4)	(1,356.7)	(3,123.1)

(1) The Group has not recognised the net deferred tax assets associated with the AASB 16 transition adjustments as it is not probable that future taxable profit will be available against which the deductible temporary differences may be used.

1. Basis of preparation (continued)

(e) Change in significant accounting policy - AASB 16 *Leases* (AASB 16) (continued)

Current year impacts

The following table summarises the impacts of adopting AASB 16 on the consolidated statement of financial position at 31 December 2019.

	As reported $m	Adjustments $m	Excluding AASB 16[(1)] $m
Current assets			
Receivables	224.0	37.8	261.8
Other	-	2.6	2.6
Non-current assets			
Receivables	130.4	80.0	210.4
Other financial assets	199.7	(21.0)	178.7
Property, plant and equipment	4,323.3	(1,194.8)	3,128.5
Other	-	10.4	10.4
Current liabilities			
Interest-bearing liabilities	542.2	(365.8)	176.4
Provisions	313.4	(84.9)	228.5
Non-current liabilities			
Interest-bearing liabilities	4,812.4	(1,593.6)	3,218.8
Provisions	760.6	(390.8)	369.8
Other	4.1	4.7	8.8
Equity			
Retained earnings	(3,220.4)	1,345.4	(1,875.0)

(1) The Group has not recognised the net deferred tax assets associated with the AASB 16 transition adjustments as it is not probable that future taxable profit will be available against which the deductible temporary differences may be used.

The following table summarises the impacts of adopting AASB 16 on the consolidated statement of profit or loss for the half-year ended 31 December 2019.

	As reported $m	Adjustments $m	Excluding AASB 16[(1)] $m
Other income	1.9	(1.9)	-
Aircraft rentals	(5.8)	(196.5)	(202.3)
Contract and other maintenance expenses	(120.3)	(3.7)	(124.0)
Other expenses from ordinary activities	(337.0)	(15.1)	(352.1)
Depreciation and amortisation	(317.3)	109.7	(207.6)
Finance costs	(205.6)	96.2	(109.4)
Loss	**(88.6)**	**(11.3)**	**(99.9)**

(1) As the Group has not recognised the net deferred tax assets associated with the AASB 16 transition adjustments, no tax effect entries have been recognised in the consolidated statement of profit or loss.

The impact of AASB 16 on the Group's earnings per share for the half-year ended 31 December 2019 was an increase of 0.1 cents.

The Group continues to present segment information excluding the impacts of AASB 16 as this is how the segment performance is presented and reviewed by management and the Board. Refer to note 2(a).

2. Results

As is normal in the airline industry, performance and capacity are seasonal throughout a 12 month period. Therefore, the first half-year period may not be representative of the second half-year period for any year.

(a) Operating segments

Management and the Board use the segment results to assess the financial performance of the individual segments within the Group.

The following summary describes the operations in each of the Group's reportable segments which are determined based on the key business activities of the Group:

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

Information regarding the results of each operating segment is detailed in the tables which follow. Performance is measured based on Segment EBIT (earnings before business and capital restructure and transaction costs; gain on disposal of assets; write off of property, plant and equipment; onerous contract expenses; net foreign exchange gain/(loss); unrealised ineffectiveness on cash flow hedges; net finance costs and income tax expense) as included in the internal management reports that are reviewed by the chief operating decision maker, being the Chief Executive Officer. Segment EBIT is measured excluding the impacts of AASB 16.

Segment EBITDAR is defined as Segment EBIT excluding costs associated with aircraft rentals and depreciation and amortisation.

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

2. Results (continued)

(a) Operating segments (continued)

31 December 2019[1]	Virgin Australia Domestic $m	Virgin Australia International $m	Velocity $m	Tigerair Australia $m	Corporate and Eliminations $m	Consolidated $m
Revenue and income						
External revenue and income	1,977.2	655.0	178.7	305.4	-	3,116.3
Inter-segment revenue	137.0	31.4	36.7	-	(205.1)	-
Segment revenue and income	2,114.2	686.4	215.4	305.4	(205.1)	3,116.3
Segment EBITDAR	347.1	62.3	75.3	51.3	(22.8)	513.2
Aircraft rentals	(65.6)	(102.5)	-	(34.2)	-	(202.3)
Segment EBITDA	281.5	(40.2)	75.3	17.1	(22.8)	310.9
Depreciation and amortisation	(168.6)	(8.7)	(6.4)	(15.1)	-	(198.8)
Segment EBIT	112.9	(48.9)	68.9	2.0	(22.8)	112.1

Reconciliations to reportable items:

Revenue	
Segment revenue and income excluding AASB 16	3,116.3
Impact of adopting AASB 16 on other income	1.9
Consolidated revenue and income	3,118.2
Loss for the period	
Segment EBIT excluding AASB 16	112.1
Impact of adopting AASB 16 on segment EBIT	106.2
Segment EBIT under AASB 16	218.3
Business and capital restructure and transaction costs excluding AASB 16[2][3]	(77.8)
Impact of adopting AASB 16 on business and capital restructure and transaction costs	1.3
Write off of property, plant and equipment	(31.6)
Net foreign exchange loss	(3.0)
Unrealised ineffectiveness on cash flow hedges	(2.0)
	105.2
Net finance costs excluding AASB 16	(97.6)
Impact of adopting AASB 16 on net finance costs	(96.2)
Loss before tax	(88.6)
Income tax expense	-
Loss	(88.6)

(1) The individual segments have been presented excluding the impact of AASB 16.

(2) Business and capital restructure and transaction costs includes the settlement of the Velocity long term incentive. Refer to note 2(d).

(3) The Group has accelerated depreciation of $8.8 million in relation to aircraft that will be decommissioned prior to their original termination dates. This has been recognised as part of business and capital restructure and transaction costs.

2. Results (continued)

(a) Operating segments (continued)

31 December 2018(1)	Virgin Australia Domestic $m	Virgin Australia International $m	Velocity $m	Tigerair Australia $m	Corporate and Eliminations $m	Consolidated $m
Revenue and income						
External revenue and income	1,954.4	637.4	175.1	302.6	-	3,069.5
Inter-segment revenue	127.9	28.7	33.8	-	(190.4)	-
Segment revenue and income	2,082.3	666.1	208.9	302.6	(190.4)	3,069.5
Segment EBITDAR	381.4	92.5	63.8	46.4	(23.9)	560.2
Aircraft rentals	(62.9)	(94.8)	-	(33.0)	-	(190.7)
Segment EBITDA	318.5	(2.3)	63.8	13.4	(23.9)	369.5
Depreciation and amortisation	(140.4)	(12.9)	(4.8)	(20.0)	-	(178.1)
Segment EBIT	178.1	(15.2)	59.0	(6.6)	(23.9)	191.4
Business and capital restructure and transaction costs						(10.6)
Gain on disposal of assets						1.5
Onerous contract expenses						(15.5)
Net foreign exchange gain(2)						0.4
						167.2
Net finance costs						(79.5)
Profit before tax						87.7
Income tax expense						(13.9)
Profit						73.8

(1) The comparative period has not been restated to reflect the impact of AASB 16.

(2) The comparative has been restated to match the current period treatment of foreign exchange.

2. Results (continued)

(b) Taxation

A reconciliation of the income tax expense follows:

	31 December 2019 $m	31 December 2018 $m
Profit/(loss) before tax	**(88.6)**	87.7
Tax expense at the Australian tax rate of 30% (2018: 30%)	**26.6**	(26.3)
Tax effect of amounts which are not included in taxable income:		
Deferred tax asset not recognised	**(40.3)**	-
Foreign currency movements on debt and securitised assets	**17.2**	12.9
Other non-deductible or non-assessable amounts	**(3.5)**	(0.5)
Income tax expense	**-**	(13.9)

The Group has not recognised a deferred tax asset of $40.3 million arising from tax losses and temporary differences in the interim period. The Group considers it probable that future taxable profit will be available against which the recognised deferred tax asset of $66.2 million can be utilised, based on detailed financial estimates and sensitivity analyses presented to the Board, including consideration of past performance, macroeconomic factors, current industry trends, and long term industry analysis of the key Australian domestic, Asian and US markets.

(c) Acquisition of non-controlling interests

On 26 November 2019, the Group acquired the remaining non-controlling interests in Velocity Frequent Flyer Holdco Pty Ltd, including the non-controlling interests held by Affinity Equity Partners of 34.82% and other non-controlling interests of 0.52%. The increase in the Group's ownership interest from 64.66% to 100.00% was recognised directly in equity as a transaction with owners and therefore the assets and liabilities were not revalued. The total purchase consideration recognised directly in equity was $711.1 million, including fees of $2.0 million.

(d) Share-based payments

CEO LTI

On 5 November 2019 (grant date) at the Annual General Meeting, shareholders approved the allocation of an equity-based long term incentive (LTI) to the Chief Executive Officer (CEO). Under this grant, performance rights would give the CEO a conditional right to acquire up to 7,857,833 fully paid ordinary shares in the Company if, and to the extent that, performance hurdles based on the Company's relative and absolute total shareholder return (TSR) are satisfied over a three year performance period.

All vested performance rights are to be settled by physical delivery of shares or, at the Board's discretion, by payment of a cash equivalent amount in lieu and in full and final satisfaction of the CEO's right to be allocated shares in respect of some or all of any vested rights.

Performance rights were allocated on a face value basis based on the volume weighted average price of VAH shares traded on the ASX over the 10 trading days commencing on 29 August 2019 (being the day immediately after the release of the Company's FY19 full year results announcement). The fair value of the incentive is $0.6 million.

Velocity LTI

In a prior year, the Group established a share-based payment for key executives in the Velocity Frequent Flyer Group (Velocity LTI) which would vest on the occurrence of a pre-defined exit event. The acquisition of non-controlling interests described in note 2(c) qualified as such an event, and accordingly, a cash payment of $24.8 million was made in November 2019 in full settlement of the Velocity LTI. The fair value of the Velocity LTI was remeasured in each financial year since its inception and therefore a portion of the settlement had been recognised in the consolidated statement of profit or loss in prior financial years.

3. Tangible and intangible assets

(a) Property, plant and equipment

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

	31 December 2019 $m	31 December 2018 $m
Opening balance at 1 July	**3,202.1**	3,031.0
Adjustment on initial application of AASB 16	**1,082.3**	-
Additions	**457.4**	237.5
Disposals	**(105.5)**	(1.1)
Write off of property, plant and equipment	**(31.6)**	-
Depreciation	**(290.2)**	(153.5)
Foreign exchange movements	**8.8**	65.6
Closing balance at 31 December	**4,323.3**	3,179.5

(b) Intangible assets

A reconciliation of the carrying value of intangible assets follows.

	31 December 2019 $m	31 December 2018 $m
Opening balance at 1 July	**580.7**	617.0
Additions	**19.1**	28.9
Amortisation	**(27.1)**	(24.6)
Closing balance at 31 December	**572.7**	621.3

4. Capital structure

(a) Interest-bearing liabilities

	31 December 2019 $m	30 June 2019 $m
Current		
Aeronautic finance facilities – secured(1)	**171.7**	195.5
Bonds – unsecured(1)	**-**	568.9
Lease liabilities	**370.5**	7.5
	542.2	771.9
Non-current		
Aeronautic finance facilities – secured(1)	**1,174.5**	1,121.1
Bank loans – secured(1)	**220.7**	222.9
Bonds – unsecured(1)	**1,801.5**	889.7
Lease liabilities	**1,615.7**	23.2
	4,812.4	2,256.9

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

The nature of interest-bearing liabilities is consistent with those disclosed at 30 June 2019 apart from the changes outlined below:

Aeronautic finance facilities - secured

During the half-year ended 31 December 2019, the Group received $160.3 million in net proceeds from re-financing aeronautic assets. These facilities are secured over existing assets.

Bonds - unsecured

During the half-year ended 31 December 2019, the Group issued $325.0 million of unsecured notes in the Australian retail market and US$425.0 million of unsecured notes to institutional investors. The proceeds of these bonds were primarily used to acquire the non-controlling interests in Velocity Frequent Flyer Holdco Pty Ltd and for the repayment of a US$400.0 million bond during the period.

Lease liabilities

The Group recognised lease liabilities at 1 July 2019 as a result of the implementation of AASB 16. Refer to note 1(e) for further information.

(b) Dividends and equity distributions

No dividends were declared or paid during the half-year ended 31 December 2019 or during the prior corresponding period.

Equity distributions of $46.0 million were paid to non-controlling interests during the half-year ended 31 December 2019 (31 December 2018: $29.1 million).

4. Capital structure (continued)

(c) Fair value measurements

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

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

There have been no changes in the nature of financial assets and liabilities or changes to the way the Group measures fair value since 30 June 2019. Refer to the 30 June 2019 consolidated financial statements for further information.

The financial instruments disclosed in the table below are all measured based on level 2 valuation methods. The carrying amounts of financial assets and liabilities not detailed in the following table approximate their fair values.

	31 December 2019		30 June 2019	
	Carrying value $m	Fair value $m	Carrying value $m	Fair value $m
Financial assets carried at fair value				
Derivative financial instruments	**39.2**	**39.2**	85.1	85.1
Financial liabilities carried at fair value				
Derivative financial instruments	**56.8**	**56.8**	17.6	17.6
Financial liabilities carried at amortised cost				
Aeronautic finance facilities - secured	**1,346.2**	**1,391.2**	1,316.6	1,369.6
Bonds - unsecured	**1,801.5**	**1,847.6**	1,458.6	1,506.8
Bank loans - secured	**220.7**	**225.0**	222.9	225.0
Lease liabilities	**1,986.2**	**1,986.2**	30.7	30.7

5. Other items

(a) Investment accounted for using the equity method

The Group has advised the other shareholders in Airline Samoa Limited (formerly Virgin Samoa Limited) that it will transfer its shares to the majority shareholder (Government of Samoa), in accordance with the terms of the Shareholders Agreement. Airline Samoa Limited ceased operating in November 2017. As at the date of this report the share transfer had not settled.

(b) Commitments

The Group has capital expenditure commitments to purchase property, plant and equipment and intangibles contracted at the reporting date but not recognised as liabilities. These commitments are predominantly in US dollars. US dollar amounts are translated to Australian dollars at the 31 December 2019 closing exchange rate of 0.7018 (30 June 2019: 0.7020). The Group's capital expenditure commitments as at 31 December 2019 are $4,385.4 million (30 June 2019: $4,240.6 million).

(c) Contingent liabilities

The Group has provided bank guarantees, standby letters of credit and surety bonds to third parties as guarantees of payment for aircraft lease security deposits and maintenance reserve deposits, non-aircraft operating lease commitments, a workers' compensation self-insurance licence and other arrangements entered into with third parties. As at 31 December 2019, the total outstanding is $291.4 million (30 June 2019: $221.4 million).

(d) Related parties

Affinity Equity Partners is no longer a related party following the acquisition of their non-controlling interest in Velocity Frequent Flyer Holdco Pty Ltd. There have been no other significant changes to related party arrangements since 30 June 2019. Refer to the 30 June 2019 consolidated financial statements for further information.

(e) Events subsequent to reporting date

Subsequent to half-year end, the global aviation market has been adversely affected by the outbreak of COVID19. Further information on the potential impacts of the outbreak on the Group's future operations and financial performance and cash flows has been disclosed in note 1(c).

In August 2019, the Group announced a workforce reduction program, targeting 750 roles. Of these, approximately 140 employees had left the business before 31 December, the cost of which was recognised in the Group's interim result. Subsequent to 31 December 2019, the Group has communicated a plan which affects a further 280 employees, who will leave the business by 30 June 2020 at an estimated cost of $10.6 million. Further plans are under consideration with regards to the remaining 330 roles.

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

Directors' declaration

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

(a) the consolidated interim financial statements and notes that are set out on pages 7 to 25 are in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and

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

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

Elizabeth Bryan
Director

Paul Scurrah
Director

Dated at Brisbane, 25 February 2020

KPMG

Independent Auditor's Review Report

To the shareholders of Virgin Australia Holdings Limited

Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of Virgin Australia Holdings Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Virgin Australia Holdings Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Interim Financial Report*** comprises:

- Consolidated statement of financial position as at 31 December 2019;
- Consolidated statement of profit or loss, Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the half-year ended on that date;
- Notes 1 to 5 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

The ***Group*** comprises Virgin Australia Holdings Limited (the Company) and the entities it controlled at the half-year's end or from time to time during the half-year.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Virgin Australia Holdings Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an Interim Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

KPMG

Trent Duvall
Partner

Sydney, 25 February 2020