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Virgin Australia Holdings Limited (ASX: VAH) reports Financial Results for Half Year Ended 31 December 2014 ^[2]

Virgin Australia Group Financial Summary

Underlying Profit Before Tax of \$10.2 million, an improvement on a loss of \$45.4 million in H1 FY14

Statutory Loss After Tax of \$47.8 million, an improvement on a loss of \$74.3 million in H1 FY14

Positive Group Yield and Domestic Yield growth on H1 FY14

Underlying CASK reduction of 3.2% including fuel and foreign exchange on H1 FY14, with Virgin Australia CASK reducing by 3.6% excluding Tigerair Australia and fuel

Total cash position of \$1.1 billion, up from \$783.8 million at 30 June 2014, unrestricted cash position of \$838.8 million, up from \$541.0 million at 30 June 2014

Strategic Update – on track to achieve all Virgin Vision targets

Continued increase in Corporate and Government share of domestic revenue

Achieved turnaround in Tigerair Australia performance, with an Underlying Profit Before Tax of \$0.5 million for Q2 FY15

Charter business on track to deliver more than \$200 million in revenue per annum by 30 June 2017

Velocity Frequent Flyer membership now 4.8 million. Major partnerships secured with BP, Australia Post and Aussie Home Loans

Achieved \$312.6 million in cumulative cost reduction to date since July 2012

Raised US\$300 million through maiden issue of unsecured notes in the debt capital markets

Virgin Australia recognised as one of the top 10 airlines in the world for Business Travel by Conde Nast

19 February 2015: Virgin Australia Holdings Limited (Virgin Australia Group or “the Group”) (ASX: VAH) today reported a first half Underlying Profit Before Tax of \$10.2 million, including the impact of 100 per cent consolidated Tiger Airways Australia Pty Limited (Tigerair Australia) performance from 17 October 2014.

Virgin Australia Group Chief Executive Officer John Borghetti said: “Virgin Australia Group’s results for the first half of the 2015 financial year reflect a significant improvement in financial performance.

“This has been driven primarily by the Group’s continued progress in driving yield growth in the domestic market and the disciplined execution of our five-year \$1 billion cost reduction program, both of which are central parts of the Virgin Vision strategy.

“The Group has succeeded in driving domestic yield growth despite ongoing subdued consumer sentiment which continues to impact overall demand.

“The performance of the international business has been impacted by increased competitive

pressure in key international markets. Virgin Australia Group will be implementing a series of initiatives to improve the performance of this business.

“Virgin Australia Group saw a benefit of approximately \$3 million from the decline in oil prices in comparison to the first half of the 2014 financial year, due to the nature of the hedging program we have in place. This reflects an adverse variance of approximately \$4 million in the first quarter of the 2015 financial year and a gain of approximately \$7 million in the second quarter. While the unit cost for fuel was broadly in line with market rates for the first half of the 2015 financial year, the Group derived a strong hedging benefit in the prior corresponding period which impacted the year on year benefit. Based on Virgin Australia Group’s current hedging position and market rates, the Group expects to see further benefit in the second half of the 2015 financial year.

“Our loyalty program Velocity Frequent Flyer has continued its strong growth trends in terms of member acquisition and member engagement, with membership now at 4.8 million. We completed the sale of a 35 per cent stake in the program to Affinity Equity Partners during the first half, launched unique partnerships with Australia Post and Aussie Home Loans and announced an Australian-first partnership with one of the country’s largest fuel retailers, BP.

“Tigerair Australia has delivered an improvement in financial performance, recording a \$6.7 million reduction in Loss Before Tax on the prior corresponding period and achieving profitability in the second quarter of the 2015 financial year. We expect to see continued year on year improvement.

“Strengthening our balance sheet is a key priority and the business achieved a strong total cash position of \$1.1 billion in the first half of the 2015 financial year, up from \$783.8 million at 30 June 2014. The Group also diversified funding sources through the successful pricing of its first issue of unsecured notes in the international debt capital markets, despite challenging conditions in those markets.

“Our people and their willingness to go above and beyond for our customers remains central to our ability to differentiate the Virgin Australia Group in the market. I would like to thank each and every one of our team members for their dedication to our business and to the successful execution of the Virgin Vision strategy”, Mr Borghetti said.

Financial and Operating Performance

“Total Group Revenue increased 6.0 per cent to \$2,377.5 million compared to the first half of the 2014 financial year, inclusive of \$75.5 million of consolidated Tigerair Australia revenue since 17 October 2014. While revenue growth in the leisure and international segments remained constrained, the business delivered further growth in the Corporate and Government, Charter and Interline and Codeshare segments.

“The Group remains on track to reach its target of 30 per cent of Virgin Australia domestic revenue from the Corporate and Government segment by 30 June 2017.

“Our Charter business continued to deliver revenue growth and is also on track to deliver more than \$200 million in revenue by 30 June 2017.

“Domestic Yield increased by 3.0 per cent compared to the first half of the 2014 financial year; driven by the Group’s success in attracting increased share of higher-yielding market segments.

“International revenue increased by 1.1 per cent compared to the first half of the 2014 financial year. Increased competitive pressure, particularly in the South East Asian and Europe/United Kingdom markets, constrained yield recovery during the first half.

“The Virgin Australia Group will put in place a series of initiatives to improve the performance of the international business. Initiatives already underway include: adjusting frequency and timing on services to Bali to better match demand; introducing Business Class on the Tasman and Pacific Islands routes to drive further unit revenue growth; integrating the management of the New Zealand operations into the rest of the international business; consolidating our Los Angeles flying from three to two Australian hubs; and introducing new Business Class suites on our Boeing 777 aircraft to drive further yield growth.

“The Group delivered a strong performance on driving down costs during the first half of the 2015 financial year in order to retain its cost leadership position. This has resulted in an Underlying Cost per Available Seat Kilometre (CASK) reduction for the Group of 3.2 per cent including fuel and foreign exchange compared with the prior corresponding period and a reduction of 3.6 per cent excluding Tigerair Australia and fuel.

“Several major cost reduction initiatives contributed to this result, including the retirement of older Airbus A330 aircraft, increased optimisation of sales distribution channels, major fuel consumption initiatives and savings in labour costs and procurement. We remain well on track to deliver our target of \$1 billion of cumulative cost savings by the end of Financial Year 2017, and had achieved a total of \$312.6 million by the end of December 2014.

“The Group incurred \$42.9 million of restructuring and transaction costs during the first half of the 2015 financial year as a result of fleet initiatives, costs associated with various transactions and other transformation initiatives. The business also incurred \$9.8 million in hedging ineffectiveness costs.

“The Group completed the acquisition of the remaining 40 per cent of Tigerair Australia on 6 February 2015, with our share of equity-accounted losses for the period 1 July 2014 to 16 October 2014 amounting to \$15.8 million. From 17 October 2014, 100 per cent of Tigerair Australia’s financial performance has been consolidated into the overall performance of the Virgin Australia Group. Tigerair Australia achieved an underlying profit of \$0.5 million in the second quarter of the 2015 financial year, as a result of significant progress achieved in driving incremental revenue growth and delivering cost synergies.

“Virgin Australia recorded normalised capacity growth of 1.0 per cent across the domestic network (excluding Tigerair Australia) for the first half of the 2015 financial year.

“The Group is focused on the on time performance of all of our airlines. In the first half of the 2015 financial year Virgin Australia recorded an average of 85.7 per cent of flights on time . Virgin Australia also led the major carriers in On Time Performance for the second quarter of the 2015 financial year.

“Tigerair Australia has also demonstrated significant progress in this regard, with average on time performance increasing by more than 7 percentage points during the half, finishing the

year with 81.8 per cent of flights on time.

“Central to the Virgin Vision strategy is our ability to deliver a superior customer experience and service excellence to all of our customers. The Group succeeded in this area during the first half with Virgin Australia maintaining its lead in customer consideration and recommendation . There were a range of major enhancements to the customer experience during this period, including the extension of the Melbourne lounge and the launch of Virgin Australia’s first Premium Exit, the completion of the wireless In-Flight Entertainment roll-out on the Embraer fleet, the reveal of our new Airbus A330 and Boeing 777 Business Suites and major upgrades to our Food and Beverage service”, Mr Borghetti said.

Cash Position

“The Virgin Australia Group finished the half with a total cash balance of \$1,099.7 million and an unrestricted cash balance of \$838.8 million, up \$315.9 million and \$297.8 million respectively on 30 June 2014.

“The Group successfully executed its maiden issue of US\$300 million worth of unsecured notes in the international debt capital markets, receiving strong global investor support for the issue which was well oversubscribed.

“We remain focused on maintaining a strong unrestricted cash balance and will continue to look for other opportunities to diversify our funding sources, meet our refinancing needs and enhance our liquidity position”, Mr Borghetti said.

Conclusion and Outlook

“Virgin Australia Group is now six months into the Virgin Vision 2017 strategy and the Group is on track on all key initiatives.

“We will continue to remain customer focused, and by doing so, we will be a more resilient and efficient business, with a stronger balance sheet, better yields and a diversified earnings base.

“As a result, we expect an improved performance in the second half of the 2015 financial year compared to the second half of the 2014 financial year. However, due to current market conditions, we are not able to provide more specific guidance”, Mr Borghetti said.

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