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Virgin Australia Holdings Limited (ASX: VAH) Announces Strategic Alliance With HNA and New Equity Investment

Highlights

The Virgin Australia Group today announces:

- A heads of agreement to form a strategic commercial alliance with HNA Aviation Group Co. Ltd ('HNA'), a division of HNA Group, that will accelerate the Virgin Australia Group's access to the rapidly growing Chinese travel market. HNA Group is a Fortune Global 500 conglomerate and the largest private operator of airlines in China. Under the commercial alliance, the companies will look to introduce direct flights between Australia and China and co-operate on commercial functions including code-sharing, frequent flyer programs, lounge access and promotion of tourism and business travel.

- In support of the alliance, HNA will make an equity investment in the Virgin Australia Group. The investment will be made in the form of an A\$159 million placement of shares at an issue price of A\$0.30 per share, which represents a premium of 7.1 per cent to the last close on 30 May 2016. Following the placement, HNA will have a shareholding of approximately 13 per cent in the Virgin Australia Group.
- The capital structure review to optimise the Virgin Australia Group's balance sheet and capital structure is ongoing. HNA is committed to supporting the outcomes of the capital structure review and intends to increase its shareholding over time up to 19.99 per cent. The outcomes of the capital structure review will be announced when finalised.

31 May 2016

Virgin Australia Holdings Limited (ASX: VAH) ('the Virgin Australia Group' or 'the Group') today announces that Virgin Australia Domestic<sup>1</sup> and Virgin Australia International<sup>2</sup> have entered into a heads of agreement with HNA Aviation Group Co. Ltd ('HNA') to form a strategic commercial alliance that will accelerate the Group's access to the rapidly growing Chinese travel market. Under the alliance, the companies will look to introduce direct flights between Australia and China. The alliance will also involve co-operation on code-sharing, frequent flyer programs, lounge access and promotion of tourism and business travel.

In support of the strategic alliance, HNA will also make an equity investment in the Virgin Australia Group. This equity investment will be made in the form of an A\$159 million placement of new shares to HNA Innovation<sup>3</sup>, a subsidiary of HNA, at an issue price<sup>3</sup> of A\$0.30 per share, which represents a premium of 7.1 per cent to the last close on 30 May 2016. Following the placement, HNA will have a shareholding of approximately 13 per cent in the Group.

HNA Group is a Fortune Global 500 multinational conglomerate and the largest private operator of airlines in China. HNA Group's member airlines fly over 77 million passengers annually on nearly 700 routes to more than 200 destinations in China and around the world. HNA Group also has strategic investments in other aviation supply chain businesses, including aircraft leasing (Avalon), cargo, ground handling services (Swissport), hotels and travel agency chains.

Chief Executive Officer of the Virgin Australia Group John Borghetti says: "The Chinese travel market represents Australia's fastest growing and most valuable inbound travel market, with inbound passengers from China increasing by approximately 18 per cent per year since 2010. In 2015, over one million Chinese travellers visited Australia, spending approximately A\$8.3 billion in total on their journeys. By 2020, almost 1.5 million Chinese travellers are projected to visit Australia in a market expected to be worth up to A\$13 billion.

"We are pleased to welcome HNA as a new shareholder and strategic alliance partner. The alliance will see us leverage the opportunities offered by China as well as the synergies of HNA's comprehensive aviation supply chain," Mr Borghetti said.

The Chief Executive Officer of HNA says: "HNA is committed to expanding in the airline industry through strategic investments in companies with strong market positions and excellent management teams. We are excited to support the Virgin Australia Group through our investment and the strategic alliance. We look forward to working together to create a seamless travel experience between Australia and to China and to deliver further choice, value and excellence to travellers worldwide."

The share placement is subject to and will take place after receipt by HNA of regulatory approvals from Chinese authorities. HNA will be invited to nominate a director to the Virgin Australia Group board.

The strategic alliance will be subject to ACCC authorisation, regulatory approvals from Chinese authorities and other commercial conditions precedent. Further announcements about the alliance will be made as details are finalised.

The Virgin Australia Group's capital structure review is ongoing. HNA is committed to supporting the outcomes of the capital structure review and intends to increase its shareholding over time up to 19.99 per cent.

1. Virgin Australia Airlines Pty Ltd
2. Virgin Australia International Airlines Pty Ltd
3. Hainan HNA Innovation Ventures Co. Ltd

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