

**Virgin Australia Holdings Limited (ASX: VAH)****2015 ANNUAL GENERAL MEETING ADDRESS BY CEO JOHN BORGHETTI**

18 November 2015

**Introduction**

Thank you, Elizabeth. Good morning, ladies and gentlemen.

Firstly, I'd like to welcome Elizabeth to the Board as Chairman.

I know that I speak on behalf of the rest of the Board and the Executive Team when I say that it is a privilege to work with Elizabeth and that we look forward to her leadership as we enter the next phase of the Virgin Australia Group's evolution.

**FY15 results**

As Elizabeth mentioned, the financial year ending 30 June 2015 saw the Virgin Australia Group make considerable progress towards the goals of our Virgin Vision strategy, delivering a significant improvement in financial performance.

While we reported a loss in the 2015 financial year, our results demonstrate that the Group is on a positive trajectory. This has been further confirmed by our profitable first quarter results.

The 2015 financial year underlying performance of the Virgin Australia Group represented a \$213 million improvement over the prior corresponding year, taking into account 100 per cent of Tigerair Australia's performance on a like for like basis.

The results included a particularly strong turnaround in the performance of the domestic business, which saw a \$210 million improvement on the 2014 financial year with a positive \$111.1 million result in Earnings Before Interest and Tax.

These results were driven by growth in revenue and yield as well as the ongoing success of our cost reduction program.

However, ongoing competitive pressure, particularly on short haul international routes, saw the Virgin Australia International business make a loss. That said, we have a comprehensive plan to return this business to profitability by the end of the 2017 financial year.

We completed the acquisition of Tigerair Australia during the financial year and Tigerair delivered a significant \$43 million improvement in performance.

Our balance sheet is also in a much stronger position, finishing the year with the highest ever full year unrestricted cash balance, a \$226 million improvement in Operating Cash Flow and a 20 per cent improvement in financial leverage on the previous year.

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## Strategic Update

The 2015 financial year was the first year of the Virgin Vision strategy which, as I outlined at last year's AGM, will ensure that the Virgin Australia Group maximises its potential for growth and generates sustainable profitability.

The Virgin Vision focuses on six key areas and last financial year, we experienced significant successes in each of these six areas.

### 1. **Capitalising on growth opportunities:**

- We finalised the full acquisition of Tigerair Australia;
- We accelerated the growth of our award-winning Velocity Frequent Flyer program;
- We set the Virgin Australia Cargo business up for a successful launch; and
- We continued to grow revenue and win new clients in the Virgin Australia Charter business, adding 4 additional aircraft to our charter fleet despite challenges in the resources market.

### 2. **Driving yield enhancement:**

- We have continued to attract an increased share of higher-yielding customers, with Positive Yield and Domestic Yield growth on FY14;
- We are well advanced in reaching our goal of 30 per cent of our business coming from corporate and government by the end of FY17.

### 3. **Executing our cost reduction program:**

- We reduced Group Underlying Cost per Available Seat Kilometre by 6.4 per cent excluding fuel and foreign exchange; and
- We are now on track to achieve in excess of \$1.2 billion in cumulative cost savings by FY17, excluding fuel pricing and hedging benefits, \$200 million more than our original target of \$1 billion.

### 4. **Strengthening the balance sheet:**

- We finished the 2015 financial year with our highest ever full year unrestricted cash balance, improved operating cash flow and a 20 per cent improvement in our financial leverage.

### 5. **Setting a new standard in customer experience:**

- We completed the rollout of complimentary food, baggage and entertainment across the mainline domestic network;
- Opened new lounges;
- Announced a new Business Class service on our Airbus A330 aircraft;
- And, importantly, led the major Australian airline brands in On Time Performance for 10 consecutive months;

And Tigerair Australia:

- introduced new check in technology;
- improved On Time Performance; and
- increased customer satisfaction.

#### 6. In developing our people:

- We launched a major Career Pathways initiative;
- We developed new frameworks and tools to support and develop our leaders; and
- We introduced an internal crowd sourcing tool which captures ideas to solve business challenges

I would like to take this opportunity to acknowledge that our progress on the strategy has come about as a result of the hard work of our dedicated team members. I would like to thank all of the Group's employees for their tireless efforts over the past year.

#### **Tourism**

The importance of tourism to Australia as a nation is critical. As such, the Group was proud to support Australian tourism by continuing to be the major airline partner of Tourism Australia and signing an agreement to jointly spend \$50 million over 5 years, the largest ever single agreement with an airline. This is particularly important given the favourable currency conditions for inbound visitors.

#### **Looking forward**

Moving into the 2016 financial year and beyond, the focus for the Virgin Australia Group is clear.

We will work towards our strategic goals by focusing on:

- Further strengthening the Virgin Australia Domestic business by improving margins and enhancing yield growth;
- Setting Virgin Australia International on track to be profitable at the end of FY17;
- Continuing to improve the Tigerair Australia business by increasing revenue and taking advantage of cost synergies;
- Delivering further earnings growth from the Velocity Frequent Flyer business;
- And always focusing on our customers.

I'm pleased to say we have built strong momentum on these priorities and we will continue to focus on them and continue to invest in our customer experience.

For example, on the domestic front for Virgin Australia:

- We will commence flights this weekend from our new Domestic Terminal at Perth Airport which will provide us with a competitive advantage in the important market of Western Australia;
- This Domestic Terminal will complement our new Business Class service on our fleet of A330 aircraft, giving our guests the best domestic business class in the world. This service

has already yielded record high customer satisfaction scores, with our research showing a clear preference for our business class offering over that of our competitor;

- We will also simplify our fleet by decommissioning the smaller Fokker 50 regional fleet of aircraft.

On the international front for Virgin Australia, we are:

- Adding extra capacity on our trans-Tasman routes as announced in August; and
- Upgrading our fleet of Boeing 777 aircraft in early 2016;

I can also announce today that:

- We will be adding 75 000 seats on Trans-Tasman routes from late March 2016 in conjunction with our alliance partner Air New Zealand; and
- Following the successful international deployment of our Airbus A330 aircraft on our flights from Sydney to Fiji earlier this year, A330s will also be introduced on our Melbourne to Fiji and Brisbane to Fiji routes from June 2016.

In terms of Tigerair Australia, guests will also enjoy a new and improved customer experience following the launch of:

- A new website;
- An enhanced booking and check in system;
- An improved call centre experience; and
- In particular, a new Tigerair terminal in Melbourne.

As announced in August, we will be launching Tigerair on international routes in March 2016.

## **Conclusion**

We outlined at our 2015 financial year results in August that we expected to be profitable in 2016 and deliver a Return on Invested Capital in line with our cost of capital – and I am pleased to confirm that we remain on track to meet this target.

In concluding, I would like to thank all of our shareholders for their continued support.

The Executive Team and I look forward to working closely with our Board and our passionate team to deliver continued success on our strategy for our customers and our shareholders.

Thank you.

ENDS