



## **VIRGIN AUSTRALIA HOLDINGS LIMITED (ASX:VAH)**

# 2012 ANNUAL GENERAL MEETING ADDRESS BY CHIEF EXECUTIVE OFFICER JOHN BORGHETTI

20 November 2012

#### Introduction

Thank you, Neil. Good morning ladies and gentlemen.

It is now over two years since I joined the airline and we introduced the Game Change Program – a three year strategy to reposition the company to ensure a more stable financial future.

In line with that strategy, Financial Year 2012 has been a year of significant transformation for our business.

In fact, over the financial year, the team has managed to transform the business at a faster pace than expected.

This has enabled us to improve the financial performance of the business, despite a challenging environment, which included high fuel prices, subdued consumer spending and aggressive competition.

#### 2012 Financial Year Results

We achieved an Underlying Profit Before Tax of \$82.5 million, an improvement of \$149.1 million on the previous year.

We increased revenue by 20 per cent to \$3.9 billion, with yield growth of 12 per cent across the Group.

We achieved a strong cash position, with the balance for the 2012 Financial Year totalling \$802.6 million, up from \$731.3 million for the 2011 Financial Year.

And finally, our re-structured international network showed continued improvement, with an EBIT of \$35.4 million – a 58 per cent improvement on the 2011 Financial Year.

These efforts have delivered strong shareholder returns and are evidence of the success of our Game Change Program strategy, confirming that we are ready for the next phase of our development.

## **Progress on Strategy**

To provide you with more detail on our progress with the Game Change Program, I would like to run through each of the five pillars that we talked about this time last year.

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#### First, invest in our team.

We have made no secret of the fact that our people are our best asset. Their dedication to Virgin Australia and their willingness to go above and beyond for our customers is what sets us apart in the industry.

We now employ 8,300 team members and our focus remains on ensuring they are highly engaged and motivated and have the appropriate support to reach their full potential.

During the 2012 Financial Year, we ran intensive development programs for our front line teams, to take our service levels to even greater heights in line with our new brand and Business Class offering.

Towards the end of the financial year, we commenced the centralisation of all relevant learning and development functions across the business. We believe this will further strengthen our service-focussed, customer-centric culture across all levels of the organisation.

The focus on our people has helped to support high levels of employee engagement, with very positive results in our annual Employee Engagement Survey this year.

Second, enhance the in-flight and on-the-ground customer experience.

During the year, we made a number of improvements including:

- The introduction of Business Class on our domestic services;
- The arrival of new Airbus A330-200, Boeing 737-800 and ATR-72 turboprop aircraft;
- The refurbishment of our international fleet and most of our domestic fleet; and
- The upgrade and opening of airport lounges and terminal facilities, including valet parking in Brisbane.

I am pleased to say that the reconfiguration program to introduce Business Class on our Embraer E190 fleet has also commenced. The first reconfigured aircraft has entered into service and the remainder of the fleet will be complete in the next four months.

Importantly, we will not stop here.

In the next month, we will commence implementation of a leading in-flight stored content Wi-Fi system, which will enable customers to stream video and audio directly to their own personal electronic devices

We will also open 'stage one' of our new flagship lounge at Sydney Domestic Airport and in 2013, we will complete stage two of the Sydney Lounge and launch new lounges in Canberra, Hobart and Cairns.

Prior to Christmas, Sydney Airport's Domestic terminal (T2) will see the opening of the extension to our dedicated pier, increasing our gates from 9 to 14 (including 4 wide-body aircraft gates). This will allow further improvements to our On Time Performance in Sydney and enhance the airport experience.



## Third, develop a comprehensive global virtual network

Over the past year, we have completed the implementation of our four key alliances with Air New Zealand, Delta Air Lines, Etihad Airways and Singapore Airlines.

These are without doubt four of the best airlines in the world. Together, they provide our customers with access to over 400 destinations worldwide and cover Australia's key aviation markets: North America, Europe, Asia and New Zealand.

We have also continued to forge niche alliances to cover other key international business and leisure destinations.

Our expanded global network has enabled us to significantly grow our share of international traffic connecting onto our domestic network, with interline and codeshare revenue up more than 158 per cent compared to the prior corresponding period. It has also considerably increased our guests' ability to earn and burn Velocity points.

#### Fourth, integrate and align the airline operations and brands.

One of the greatest achievements of the 2012 Financial Year has been re-launching the airlines under the new Virgin Australia identity, allowing us to build one strong brand that can be recognised globally.

The Virgin Australia brand now has a presence within Australia, south-east Asia, across the Tasman, the Pacific Islands and at our key international hubs in Abu Dhabi and Los Angeles.

The evolution of the brand has been well-recognised over the past twelve months. Virgin Australia won in the Marketing category at the 2012 Airline Strategy Awards, which are determined by an independent, international judging panel.

Furthermore, the most recent AMR and Reputation Institute Index ranked Virgin Australia sixth out of all brands in Australia, up seven places from last year.

The following ads encapsulate where we have come from and where we are today.

#### And fifth, maintain cost advantage and efficiencies

Key to our profitability is our ability to contain our costs while ensuring an exceptional experience for our customers.

This has seen our Cost per Available Seat Kilometre (CASK), excluding fuel, grow by just 4.5 per cent, even with our comprehensive program of product and brand enhancements, the launch of Business Class across our domestic network and the introduction of a new catering model.

We have also invested to ensure a low average fleet age – reducing it from 4.9 years to 4.2 years. This is one of the youngest fleets in the world and is a source of advantage over our competitors as it enables us to deliver significant cost and customer experience benefits.



Any analysis of our balance sheet and comparisons to our competitors must recognise the additional capital invested in this business to deliver cost and customer service benefits through a young fleet.

#### **Five Pillars**

The five pillars were designed to enable us to achieve the aim of our strategy: to diversify our revenue and drive yield growth.

I am pleased to report that we have achieved this one year earlier than expected:

- We have surpassed our target of 20 per cent of domestic revenue from the Corporate and Government market
- We have seen strong growth of Velocity Frequent Flyer from 2.5 million members in Financial Year 2011 to 3.2 million in Financial Year 2012
- We have driven a 113 per cent increase in high-yield fares, driven by corporate penetration and changes to fare class structure, network and product offering

Importantly, we successfully restructured the domestic and international operations of the airline to ensure ongoing compliance with the Air Navigation Act (ANA) and to significantly improve the growth prospects of the company.

### **Supporting Australia**

I would also like to stress that we are very conscious of our responsibility to growing jobs and promoting tourism in Australia.

Over the financial year we have worked closely with tourism bodies, airports and other industry organisations to promote Australian destinations both locally and abroad.

We have created around 1000 new front-line jobs in Australia and, in order to develop the next generation of Australian pilots, we have selected the first group of cadets for our new Pilot Cadet Program.

The first course will commence by the end of this calendar year and we are very pleased to have these cadets here with us today. I would like to wish them all the very best for the exciting time ahead.

#### The Next Phase of Growth

With the first phase of our five year plan behind us, I would like to turn to the years ahead.

As I outlined at our financial results in August, we are now moving to the next phase of the Game Change Program, which we are calling "Game On". This phase is about driving growth opportunities and ensuring the sustainability of the business through continuing to diversify our earnings.



This phase will also be structured around five key pillars:

- Implementing a three-year business efficiency project to ensure that the airline remains
  efficient and nimble as it grows. This program will deliver efficiencies in productivity gains
  of \$400 million over three years;
- Turning Velocity Frequent Flyer into a major broad-based loyalty program with over five million members by the end of Financial Year 2015;
- Improving our access to global markets in order to increase our interline and codeshare revenue. This will deliver around \$150m per annum run rate by end of Financial Year 2015;
- Further enhancing the customer experience through innovation in-flight and on-the-ground; and
- Maintaining and enhancing our service excellence through our outstanding team.

Ladies and gentlemen, in January we will be migrating to a new reservations system − SabreSonic CSS<sup>™</sup>.

Sabre will help us to enhance the customer experience through improved customer recognition and a more integrated seamless travel experience with our alliance partners.

It will also improve access to both global and local markets – it will significantly increase the visibility of our domestic and international products with local travel agents in Australia and with all distribution channels around the world.

Moving onto a single reservation system and designator code will eliminate duplication and enable travel agents to book Virgin Australia flights with greater ease and confidence.

Now I would like to briefly comment on three important transactions that we announced last month.

First, the placement of shares to Singapore Airlines. Singapore Airlines is an important strategic alliance partner and we are very pleased to have their support as an investor, along with Air New Zealand and Etihad Airways. We believe this investment demonstrates their confidence in our strategy and it enables Virgin Australia to fast-track its growth plans.

The acquisition of Tiger Australia and Skywest, subject to all necessary approvals will provide Virgin Australia with a strong presence in the budget, Fly-in Fly-Out (FIFO) and regional markets, enabling us to accelerate our expansion in these areas and become a stronger competitor.

These transactions will bring important benefits to Australia, driving growth in jobs, tourism and competition.

We have a strong track record of bringing benefits to the customer – following our launch of Business Class earlier this year, we brought down fares by between 20 and 30 per cent and the standard of customer service and product has increased significantly. In fact, every time we have entered a market segment, we have brought down fares and increased jobs and tourism. We need to ensure that Australia has strong competition in all sectors of the aviation market and these transactions will allow that. We are committed to ensuring that all Australians have access to great value fares and friendly reliable service.



## **Outlook and Capacity**

Now onto outlook, with regards to capacity, we will continue with our strategy of focusing on yield and margin improvement opportunities on strategic markets, as opposed to an overall Group market share goal.

We maintain the same guidance we provided at our Financial Results in August of 8 - 9 per cent domestic capacity growth in the first half of the 2013 Financial Year.

While Virgin Australia currently anticipates an improved underlying Profit Before Tax in Financial Year 2013 compared to Financial Year 2012 (excluding the impact of the proposed Skywest and Tiger acquisitions), the uncertainty in economic conditions and the particularly competitive environment precludes us from providing a profit guidance for the year.

Virgin Australia expects a more balanced mix between the First Half and Second Half trading outcomes than has been achieved historically.

Ladies and Gentlemen, our achievements this year are a testament to the hard work of our people in driving our strategy and going above and beyond for our customers.

The level of transformation is extraordinary, and I would like to take this opportunity to thank each and every one of our team members for their dedication to our airline.

It is truly an honour for me to lead a group of such outstanding individuals.

Finally, I would like to thank you, our shareholders, for your ongoing support. You have my assurance that we will continue to work hard to deliver long-term value.

Thank you and I'll now hand back to Neil.

**ENDS**