

## **VIRGIN BLUE HOLDINGS LIMITED (ASX:VBA)**

### **2011 ANNUAL GENERAL MEETING ADDRESS BY**

### **THE CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR JOHN BORGHETTI**

23 November 2011

Thank you Neil

#### **[Opening Comments]**

Ladies and gentlemen – good morning.

I would like to add my welcome and that of my executive team who are here today. Thank you for joining us.

When I addressed you last year I had been at Virgin for only six months.

I had reviewed the company's operations and formulated, with my management team, the Game Change Program – a strategy to reposition the company and ensure a more stable financial future. At that time we had only just begun to implement it.

Well, we are now 12 months down the track and a lot has happened since then.

Certainly Financial Year 2011 was a year of enormous challenge. Our company was impacted by an unprecedented series of external events that affected our key markets, including floods, cyclones, earthquakes, volcanic ash clouds and we also experienced system outages.

As I outlined at our Financial Results announcement in August, these events had a material impact on our operations and revenues, estimated at around \$90 million.

Our airline was particularly hard hit, with over 50% of Virgin Australia's domestic operations to/from or within Queensland and our Pacific Blue operation based in Christchurch, New Zealand.

This also coincided with a spike in fuel prices which directly impacted our operating costs and was only partially recovered through fuel surcharges. We also faced a very volatile economic climate.

#### **[FY11 Result Commentary]**

However, despite the tough operating conditions and the fact that many of our Game Change Program initiatives were yet to be implemented, the company delivered some important achievements.

We reported a Net Result Before Tax that was in line with guidance.

We increased revenue by in excess of 9% against a capacity increase of 5%.

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We also delivered a strong closing cash position for the year of \$731 million.

Importantly, even with our comprehensive program of product enhancements and restructuring costs, we continued to maintain a tight control on expenditure.

Underlying Cost per Available Seat Kilometre (CASK) growth excluding fuel was below inflation and yield was stable, notwithstanding the one-off events affecting revenue.

Importantly, we re-structured our loss-making long haul operation to achieve a break-even EBIT result and a positive EBIT for our total international operations of \$22.4 million. This was a major achievement in a short period of time and I particularly want to thank our whole team for their hard work.

### **[Game Change Program Update]**

To illustrate our progress, I'd like to take you back to the five pillars of our Game Change Program strategy that I outlined at the AGM last year.

#### **First, aligning capacity and network to profitability**

When I spoke to you 12 months ago, I outlined several changes to the route network in order to utilise our flying assets more productively. I'm pleased to report that we have implemented every one of these changes and we are seeing strong benefits.

By exiting our Boeing 777 aircraft from the unprofitable Johannesburg and Phuket routes, we have consolidated our long-haul international network to two strategic hubs in Abu Dhabi and Los Angeles – this has seen positive results.

We have also exited the loss-making domestic New Zealand market, enabling us to boost our trans-Tasman capacity and to increase our short haul international services to popular destinations in South East Asia and the Pacific Islands.

In Australia, we have focused on aligning fit-for-purpose aircraft to each route and on expanding our presence in regional Australia. The addition of the Airbus 330 to our domestic fleet has enabled us to compete more effectively on the critical trans-continental market.

The replacement of Embraer 170s with new fuel-efficient ATR turboprop aircraft has seen us expand our reach to new destinations such as Emerald and Gladstone and increase our frequency to important destinations such as Port Macquarie and Canberra.

The ATR aircraft will allow us to profitably access untapped opportunities in regional Australia and bring much needed competition to these important markets.

#### **Second, creating an international virtual global network**

This time last year, our alliance strategy was “under development” (to put it diplomatically!) – we were yet to receive final approval on our Etihad Airways alliance and draft denials had been issued for both our proposed alliances with Delta Air Lines and Air New Zealand. There was also a gaping hole in our virtual international network: Asia.

As I stand here today, I am pleased to say our international reach has gone from around 60 destinations to over 400 destinations<sup>1</sup>. We have now implemented the Etihad Airways, Air New Zealand and Delta Air Lines alliances and we are awaiting final approval of our Singapore Airlines alliance from the ACCC.

Through reciprocal codeshare, frequent flyer recognition and lounge access with each of our alliance partners, Virgin Australia will be able to offer guests a first-rate seamless travel experience that spans the globe with four of the world's best airlines.

Our domestic business is already seeing benefits from these new alliances; with interline and codeshare traffic onto the Virgin Australia domestic network more than doubling year on year.

Our capacity share with our alliance partners in and out of Australia will be equal to that of the largest global alliance in this country – **oneworld**.

**The third and fourth pillars were growing our share of Corporate and Government markets, while maintaining our strong presence in leisure.**

Despite the fact that many of our Game Change Program initiatives are yet to be fully implemented, we have already made significant progress in this area.

Last November, we had secured two new corporate accounts; the AFL and the NBN. I'm pleased to say that by the end of Financial Year 2011 we had secured an additional 39 new accounts and we have seen improvements since then. Our corporate and government customers made up 13% of our total revenue, up from 10% in Financial Year 2010. I should note that we are also successfully growing existing contracted customer revenues.

Key to the success of this strategy is improving yields - following the restructure of our fares in May, we have seen a yield improvement in the top-end flexi-fares.

In our first month of trans-continental services from Melbourne, Sydney and Brisbane to Perth we carried thousands of Business Class guests, who previously had no choice but to fly with our competitor. From the 18<sup>th</sup> of January we will have Business Class across our domestic network and guest feedback on the product has been extremely positive.

In the first week of ATR operations between Brisbane and Gladstone we had high loads of around 80% and forward bookings on the ATR services to all ports continue to look strong.

**Finally, leverage our strong brand**

One of our most significant achievements this year has been securing one brand and identity for our domestic and international operations. This time last year we had a range of different brands that led to confusion for customers, made brand investment costly and prevented the company from fully leveraging the value of the powerful Virgin brand.

I spoke at the time about our intention to create a new identity to reposition our company as the airline of choice for all markets.

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<sup>1</sup> Unique codeshare and interline destinations – includes the Singapore Airlines alliance which is subject to final regulatory approval.

The new Virgin Australia identity revealed in May this year has created one strong brand that can be marketed globally, retaining all the great Virgin Blue attributes; the “can-do” attitude, competitive pricing and genuine friendly service and elevating it to a new level.

It will also enable us to tap into the huge power of the Virgin brand around the world – a brand that signifies style, innovation, quality, value for money and the best service – all values that are central to Virgin Australia. From May, Virgin Australia has operated domestically in Australia and by the end of the year, our international product V Australia and Pacific Blue will also operate under the Virgin Australia name.

An integral part of repositioning the Virgin Australia brand has been redesigning our product in the air and on the ground. We assembled a team of expert advisers to work closely with our own talented people to overhaul the entire travel experience, our staff uniforms, airport lounges and the look and feel of the aircraft.

During this period we announced and delivered:

- Wide-body Airbus A330 services between Sydney and Perth, featuring international-standard Business Class seating and service.
- A redesigned fleet of aircraft, with new livery and enhanced services and products.
- Luke Mangan designed menus for our aircraft and lounges.
- New uniforms for our team members, created by fashion designer Juli Grbac.
- New Melbourne and Brisbane lounges designed by Tim Greer from Tonkin Zulaikha Greer Architects and a program to upgrade all our lounges.
- Australia’s first premium valet airport entry service in our Sydney lounge, offering Guests a streamlined, hassle-free experience when departing from the airport.
- A Priority Boarding service for premium Guests.
- And many other enhancements.

Very importantly, we have also re-launched our Velocity Frequent Flyer program delivering a program with a global network of over 600 services internationally<sup>2</sup>, simplified earn and burn structures, innovative rewards for loyalty and a new Platinum tier to provide unique benefits to our most frequent flyers.

Our recent Velocity Frequent Flyer program status match offer was very successful, with thousands upon thousands of matches, a large percentage of which were for either Platinum or Gold tiers, in addition to a significant number of Chairman’s Lounge members. We now have 2.75 million program members, up from 2.5 million at the end of Financial Year 2011.

## **[Our People]**

I would now like to talk about our competitive advantage – our people.

Last November I outlined the importance of a strong management team and engaged employees. Without this, we could not have achieved such significant progress in repositioning the airline.

We have put considerable work into strengthening our execution capabilities within the business, with a skilled management team in place and a focus on maintaining engaged, motivated

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<sup>2</sup> Number of services on which Velocity members can earn and redeem frequent flyer points with Velocity airline partners

employees. This is demonstrated by our recent annual engagement survey which shows a greater level of engagement of our staff this year.

We want to ensure our staff are rewarded fairly for their hard work and dedication and we have recently reached an agreement with our international long haul pilots and cabin crew that reflects this philosophy.

We now employ over 7,000 people and it is their hard work and dedication that has got us where we are today.

In fact, Virgin Australia was recently voted as one of the Australian Financial Review's Most Respected Companies, coming in fourth behind some of the best known Australian brands and first in our own category. This is a real testament to the outstanding efforts of our people, who have worked tirelessly this year on taking our airline to the next level and I thank them for their hard work.

We are proud of being a strong Australian employer and we are committed to keeping as many jobs in Australia as possible. Over the year we have reviewed our operations and we have announced that we are creating:

- around 100 full-time and part time Guest Contact Centre positions by in-sourcing jobs from two off-shore, outsourced providers
- around 200 new ground operations jobs in Australia

Today I can also announce that we will be providing up to 250 new cabin crew roles mainly based in NSW and we welcome the NSW Government's support for this. This brings the total new cabin crew roles for this calendar year to around 400.

We are also developing a cadet pilot training program that will be launched in Australia next year and we have announced a new maintenance hangar at Sydney Airport which will create more than 300 new jobs when it is launched in 2014.

The level of transformation that has been achieved in such a short time has been nothing short of extraordinary especially when you consider the unprecedented external challenges that we were faced with during this time.

This has only been made possible through the dedication and hard work of all of our people and a strong desire to deliver on the strategy.

### **[Solid operating platform]**

Ladies and Gentlemen, while we have made significant progress on these five pillars, we have not lost sight of the importance of having strong foundations. We have been focused on building a strong flexible operating platform, through strengthening our systems and processes.

This includes implementing:

- a new Treasury management framework
- an improved group-wide Procurement framework
- improved operating and financial disciplines
- a Business Improvement program to drive better cost outcomes and operational efficiencies

## [Financial Year 2012]

The next 12 months will be about consolidating the changes we have implemented over the past year and starting to see the benefits.

We have identified five key areas of focus for the 2012 Financial Year.

**First, drive revenue growth** through increasing our share of the corporate and government markets, grow our international sales and expanding our presence in regional Australia.

**Second, we will be consolidating recently introduced Game Change Program initiatives and introducing many more.** By the end of this calendar year, our domestic and international businesses will operate under the name Virgin Australia.

By early next year the re-fit of our domestic Boeing 737s with the new business and economy class product will be complete.

By the end of Financial Year 2012 we will reveal the revamp of our international aircraft. We will launch new lounges in the Gold Coast and Mackay, and I'm pleased to announce today that we will commence work on a new flagship lounge at Sydney domestic airport.

A key part of our Game Change Program involves making the organisation more customer-centric and consistently delivering an exceptional experience for our guests.

Central to this is that we have systems that can recognise our guests and provide them with a seamless integrated travel across the Virgin Australia and partner airline networks. We can announce today that we will be introducing a new Sabre reservation system, the *SabreSonic Customer Sales & Service solution*, to help us achieve this.

In making this decision, we conducted a rigorous due diligence process to review and evaluate commercial solutions appropriate to support our strategy.

Using the Sabre system will enable us to support integrated ticketing with our Alliance partners, and provide an elevated level of recognition for our customers.

**Third, continuing to invest in our people.** We have a real service advantage in our people – their desire to provide the very best level of customer service sets Virgin Australia apart in the airline industry. We recognise the importance of strong communication and continuous engagement with our workforce.

Going forward, we will continue to take a collaborative approach to negotiations and we have confirmed our commitment to keeping as many jobs in Australia as possible.

**Fourth, we are determined to maintain disciplined cost and capacity management with flexibility to meet demand.**

**Finally, we are committed to investing in Australia and supporting tourism in our country.** We recognise the importance of aviation to regional Australia and with the recent launch of our ATR aircraft, we have been actively promoting destinations throughout Australia.

Our international alliances strategy is also very important for tourism in Australia. The alliances will drive more international traffic to cities around Australia and provide a clear incentive for Virgin Australia and its partners to promote Australia in the hundreds of cities around the world that are included in our codeshare arrangements.

Australia no longer has to rely on one Australian airline to promote our country abroad.

In conclusion I would like to say that we are confident we have the right strategy.

### **[Outlook and capacity]**

Many market and industry commentators have endorsed the strategic initiatives we have implemented to date, and we are encouraged by what we are seeing in the early stages of 2012.

Underlying Profit Before Tax for the first quarter of Financial Year 2012 was higher than the corresponding period last year, despite an increase in fuel costs.

While we continue to expect an improvement in underlying performance for this Financial Year, we are unable to provide clear guidance due to the uncertain economic environment.

We are building significant momentum in this strategy and we have now laid the foundations for future growth.

I would like to thank you for your continued support and I would also like to acknowledge the fantastic work of all of our team members over this past year. It certainly has been a challenging year, but it has been one of great achievement and this is thanks to the tremendous efforts of our team.

As CEO, I couldn't have wished for a better team or a more supportive Board and I am excited by what we will be able to achieve together in the years ahead.

I would also like to reassure you that we remain 100% focused and committed to our goal of making Virgin Australia the no 1 airline of choice.

**ENDS**