

VIRGIN AUSTRALIA HOLDINGS LIMITED (ASX: VAH)

2014 ANNUAL GENERAL MEETING ADDRESS BY CEO JOHN BORGHETTI

19 November 2014

Introduction

Thank you, Neil. Good morning ladies and gentlemen.

First and foremost, whilst Neil will remain our Chairman until a successor is found, I wanted to take this opportunity to thank him for the enormous contribution he has made to Virgin Australia over the past nine years; and in particular his last seven years as Chairman.

Neil has led the Board during a very challenging period for the industry and has overseen huge transformation within the business.

He has been instrumental in our strategic achievements including the restructuring of the company and the establishment of the Virgin Australia International Holdings Board. As well as the acquisition of Skywest Airlines, the acquisition of Tigerair Australia and the addition of our major airline shareholders to the Virgin Australia Board.

Neil has ensured the seamless running of the Board, creating a united and supportive culture which has been critical to the success of the Game Change Program.

It has been a great privilege to work with Neil, who for me has been hugely supportive and a source of wise advice. I look forward to continuing to work closely with him until we find a suitable replacement for the role.

FY14 Performance

As noted by Neil, and as many of you would be aware, operating conditions during the 2014 Financial Year were extremely challenging.

The driving forces behind this were:

- Over capacity, particularly in the domestic market;
- The cost of the carbon tax, which was unable to be recovered due to the competitive environment; and
- Ongoing weak consumer sentiment and economic uncertainty.

As a result, the Australian domestic aviation industry made the biggest loss in its history – with Virgin Australia reporting an underlying loss of \$211.7 million.

While Virgin Australia performed well in attracting high yielding passengers and containing cost growth over the full year, underlying revenue performance was impacted by the challenging operating conditions.

24-hour media enquiries: 1800 142 467

For personal use only

Reporting a loss is never acceptable and shortly I will touch on our progress in improving the performance of the business.

But importantly, notwithstanding the tough conditions, the Group delivered on every one of the strategic targets set a few years ago. And I am pleased to say we delivered ahead of schedule.

We may not be able to control the macro forces that affect the market, but we are committed to delivering on our consistent strategy, which will give our company a sustainable, strong future that will deliver returns for shareholders.

What we achieved over the past few years required a solid plan, investment and the buy-in and hard work of our team.

In just four years we have:

- Re-positioned our brand;
- Significantly enhanced the in-flight and on-the ground customer experience;
- Increased the percentage of domestic revenue from the Corporate and Government market from around 10 to more than 25 per cent, far exceeding our original goal of 20 per cent;
- Developed a comprehensive global virtual network;
- Maintained a cost advantage;
- Built a loyalty business, more than doubling membership numbers to 4.5 million;
- And, most importantly, we have invested significantly in our team: attracting, developing and retaining the best talent.

In delivering our strategy, we have not only reshaped Virgin Australia and established the business as a diversified airline group; we have reshaped the entire Australian aviation market. And that has important ramifications for Australia, and for our future as a business.

But before I go on to that, I would like to thank each and every one of our team members for their hard work and dedication to delivering the Game Change Program.

They have achieved what many believed was impossible – enormous transformation during one of the most challenging periods in the history of Australian aviation. And for that, the Board and I are truly grateful.

Now, I would like to share with you our Virgin Vision to 2017 strategy, launched in August this year, which will make us Australia's favourite airline group.

Virgin Vision

At our full year financial results announcement in August, we introduced the next phase of our strategy, building on the investment and hard work of the past four years.

This next period for us is about maximising the Group's potential, by extracting value from the business to generate sustainable profitability. Central to this will be growing our base of Virgin Australia loyalists.

In order to achieve this, we will focus on six key areas.

And I am very pleased to say that even since the announcement in August; we have already made great progress on these targets.

First, capitalising on growth business opportunities. We have announced the proposed acquisition of the remaining 40 per cent of Tigerair Australia, allowing us to better leverage the resources of the wider Virgin Australia Group to achieve profitability ahead of schedule.

Virgin Australia has also completed the sale of 35 per cent of our Velocity Frequent Flyer program to Affinity Equity Partners and commenced working with Affinity to fast-track the growth of this important business.

We have set ourselves the target of growing Velocity to more than 7 million members by 30 June 2017. And we are continuing to forge innovative partnerships that add real value for Velocity's members. Just this week we announced Velocity will become the first airline loyalty program in Australia to enter a direct partnership with one of Australia's largest fuel and convenience retailers, BP.

The plans for the launch of our freight division are progressing well, with the establishment of a small team of industry experts to develop the strategy.

Our Charter business, which also represents a significant opportunity for the Group to grow, continues to go from strength to strength. Since our last update in August, we have won two new major charter contracts in Western Australia and added two Fokker 100 aircraft to our fleet in order to service new contracts.

Second, driving yield enhancement. As we reported last month, Virgin Australia has delivered positive Domestic Yield growth for the first quarter of the 2015 financial year, despite ongoing subdued consumer sentiment. And we can confirm today that Domestic Yield growth for the month of October 2014 was also positive in comparison to last October.

Virgin Australia will continue to pursue opportunities to drive yield growth through breaking monopoly markets. For example, today we have announced new services between Adelaide and Alice Springs, bringing strong competition to that monopoly route.

Third, implementing our \$1 billion cost reduction program. We have continued the downward trend in underlying Cost per Available Seat Kilometre (CASK) growth established over the calendar year – with CASK increasing by less than 1 per cent for the first quarter of the 2015 financial year. CASK performance in October 2014 was consistent with performance in the first quarter.

This cost reduction has been achieved through a number of major initiatives. In the last four months we have secured:

- A \$5.5 million saving through the insourcing of ground operations and maintenance roles;
- A \$4.5 million saving through the retirement of two 12 year old Airbus A330 aircraft; and
- \$10 million in fuel efficiency savings achieved by our pilots.

We have also implemented a number of further initiatives that will deliver substantial cost benefits into the future, including:

- The increased utilisation of the Boeing 737 fleet;
- The integration of Virgin Australia's New Zealand operations into the rest of our international business; and
- The consolidation of our long-haul international bases from three into two.

Fourth, we have continued to strengthen our balance sheet. Last week we successfully priced US\$300 million in unsecured notes, our first issue of this kind in the international debt capital markets. We were pleased to receive strong support from a large range of global investors and will continue to look for other opportunities to diversify our funding sources and enhance our liquidity position going forward.

Fifth, Virgin Australia has again set a new standard in customer experience, with the unveiling of our new Airbus A330 and Boeing 777 Business Class seats – or as I like to call them, Business First suites. They will be the longest and widest domestic Business Class seats in the sky and are central to our ability to continue to drive yield enhancement. This and other initiatives will enable us to reach our new target of increasing our Corporate and Government domestic revenue mix to around 30 per cent by 30 June 2017.

Finally, and most importantly, we continue to develop our people, with the roll out of new training programs to enhance their service skills and capability, in particular those of our front-line teams.

And I would also like to acknowledge our first ever group of engineer apprentices, who are with us today (graduates please stand). Virgin Australia is committed to investing in aviation trade skills that are vital to the sustainability of our business and to the Australian economy.

Indeed, since the start of the Game Change Program, my management team and I are proud to say that we have created more than 3,000 jobs.

Conclusion

To conclude, it has certainly been a tough period for aviation in Australia.

Over the past couple of years, the industry has been through a fundamental shift in competitive dynamics and we are now coming out the other side.

While this shift has seen significant overcapacity in the domestic market, which has put significant pressure on load factors and revenue, there are signs that conditions are moderating. And I am pleased to say that Virgin Australia is now in a much stronger strategic position than it was four years ago.

Whilst the continued uncertain economic environment and subdued consumer sentiment make it difficult for us to give guidance for the 2015 financial year, Virgin Australia expects to achieve an underlying profit in the second quarter of the 2015 Financial Year.

In regards to Tigerair Australia, we are already seeing improvement as a result of the turnaround strategy and expect Tigerair Australia to more than halve its underlying loss in the second quarter, compared to the prior corresponding period.

In addition, as a result of further synergies that have been identified since the announcement of the proposed acquisition, we now expect Tigerair Australia to achieve breakeven by the end of the 2016 Financial Year, a further six months earlier than previously forecast.

To all our shareholders, thank you for your continued support. I would also like to say a special thank you to our three airline shareholders and the Virgin Group for their support of our strategy.

My management team and I look forward to continuing to work with our strong Board and passionate team to deliver on each and every one of our Virgin Vision targets and achieve sustainable profitability for our business.

Thank you.

ENDS