



Managing director's address, by Graham Turner

As you have heard, 2010/11 was another record year.

Actual PBT was 6% higher than our previous best, despite the combined \$32.1million impact of goodwill impairment and donations on last year's results.

Net profit after tax was \$139.8million (actual) or \$170.7million (underlying).

Total transaction value was a record \$12.2billion, up 12% on the prior year. Had FLT translated overseas TTV into Australian dollars at the rates that applied during 2009/10, TTV would have increased 17% year-on-year.

Income margin was in line with expectations at 13.8%, while underlying net margin increased to 2%.

Shop and business numbers increased 7.5%, largely through organic growth of our brands and businesses. We also acquired gapyear.com, a social networking site for travellers, and took 100% ownership of the Garber corporate business in the USA.

As highlighted previously, we generated EBIT profits in all regions for the first time.

US EBIT was \$1.5million, a solid turnaround after two-and-a-half years of significant losses.

While the acquired Liberty-GOGO leisure and wholesale business has not yet delivered the returns we initially expected, which led to the recent goodwill write-down, benefits have started to flow through.

Specifically, the business's strong Americas product range has been incorporated into our Flight Centre Global Product area and made available to our customers and consultants globally. Benefits will also flow back, as our American consultants can now access this database and sell our international product to local customers.

Generally, FLT's corporate travel businesses performed strongly globally.

In leisure travel, sales volumes were good, with strongest growth achieved in Australia and Canada, where market conditions remained reasonably stable.

In wholesale travel, the Flight Centre Global Product internal wholesale and corporate product procurement division was again a key contributor to overall results.

In the online space, we continued to develop our stable of transactional websites and sites that generate enquiry for either retail shops or online direct brands.

We also enhanced our social media presence and now have teams in most countries to monitor social channels, oversee blogs and develop Facebook communities.

Elsewhere in the business, the Pedal Group joint venture cycle business generated combined sales of \$22million – an 8% year-on-year increase – and an EBIT loss of just under \$100,000 during a period of significant expansion.

Retailer 99 Bikes now has 11 shops in south-east Queensland, Sydney and Melbourne, plus an online shop that offers bikes, parts and accessories nationwide.

Wholesaler Advance Traders, which distributes the Merida, Indi and DK brands Australia-wide, works with a broader network of independent retailers and will introduce new brands, including Centurion, Lapierre and Norco, for the 2012 season.

Moving forward to 2011/12, we have seven key areas of focus for the year.

These are:

- Fast-tracking growth in corporate travel, mainly through organic expansion
- Improving retail processes and deploying new tools to our travel consultants to improve the customer experience and enhance productivity. Universal Desktop, which is currently being rolled out, is the first of these initiatives
- Refocusing on the area – a localised grouping of shops – as the central business unit to deploy initiatives, improve customer offerings and reinforce ownership of our business model

- Enhancing our relevance to suppliers to ensure supplier margins are maintained and that we continue to offer choice and value
- Effective enquiry management to ensure enquiry generated in our products and marketing campaigns is converted into business
- As well as giving our customers what they want, developing better products and services; and
- Further support of emerging businesses by investing in them and providing appropriate senior management focus to guarantee their success

We will, of course, continue to expand our offerings across all sales channels to meet customer needs, whether they want to book in-store, online, via the phone or email.

This genuine multi-channel sales offering is a key point of difference.

Effectively, we can replicate the web-based booking services online travel agencies provide and couple them with the services our global shop network provides.

Our goal this year is to grow this network by 8 to 10%.

We also aim to increase pre-tax profit by 10%, which – if achieved – will deliver a record \$270million result.

This is the midpoint in our preliminary market guidance of a profit before tax between \$265million and \$275million, excluding any major abnormal items that may arise.

Globally, we see improvement opportunities in all markets.

The UK business should benefit from the significant investments last year in new businesses and sales consultants.

In the USA, we expect further bottom-line growth, following our inaugural profit last year, and will target an EBIT result in the order of \$5million. This will be driven largely by the corporate travel business, which continues to grow rapidly and successfully, albeit from a relatively small base.

Priorities in Liberty include upstaffing existing shops, improving productivity and converting the healthy enquiry our marketing initiatives are generating into sales.

Our external US wholesaler, GOGO, is improving and is expected to regain some of the ground lost following the system changes that took place last year.

In Australia, the corporate travel business continues to perform well and demand for international leisure travel remains healthy, which is offsetting the well publicised weakness in the Australian domestic tourism sector.

Australian domestic tourism remains our largest individual travel sector and we are committed to helping the local industry recover.

This sector does, however, face significant challenges, particularly affordability.

Wage costs and the costs of goods in general are considerably higher in Australia than in many countries, which can make a holiday at home an expensive proposition.

Attracting in-bound tourists will also be a challenge because our dollar's current strength makes Australia even more expensive for international visitors.

Unfortunately, the industrial action that is affecting Qantas is likely to exacerbate this problem, given that fewer flights will mean that fewer cheap seats will be available for international and domestic customers on any airline flying the affected routes.

In terms of the Australian dollar's impacts on outbound travel, we do not subscribe to the argument that a weaker dollar will automatically stimulate domestic tourism.

When the Australian dollar is weaker, travellers typically adjust their spending habits by shortening their stays or downgrading arrangements.

While many Australians have taken advantage of the strong dollar by travelling to America during the past two years, history shows that Australians are also happy to travel to the US at an exchange rate in the order of 70 cents.

Of course, a fluctuating US dollar is of little relevance to most travellers who are booking flights to international destinations outside the United States.

In terms of our performance to date, it is fair to say we have started the year well – global sales and profit results are currently ahead of expectations.

First quarter trading results and October projections indicate that pre-tax profit is currently 25-30% higher than during the previous corresponding period.

It is, of course, early days and it is premature to assume that this trend will continue.

In fact, our experiences during the past 30 years give us reasons to remain cautious.

Firstly, history shows that we operate in a volatile industry. Inevitably, issues will arise and these will have some impact on bottom-line results.

Secondly, financial storm clouds are on the horizon – particularly in Europe and the USA – and it remains to be seen what will play out within the global economy. In Australia, we have not yet experienced the slowdown that some retailers reported during the second half of last year.

Thirdly, preliminary trading results are not necessarily a true reflection of actual results, as they are not subject to the seasonal adjustments that take place prior to full and half year audits and reviews.

Fourthly, it will become harder to maintain high year-on-year growth rates because of higher comparatives during the seasonally stronger second half.

At this stage, we remain comfortable with our full year market guidance.

So far, all regions are in line with or better than expectations, with Australia, the UK and our emerging Asia-Middle East businesses generating strongest growth.

The US business has recorded a modest EBIT loss during the first four months, as expected given its seasonality.

We expect trading in the US will follow a similar pattern to last year, with first half losses followed by profits during the seasonally stronger second half.

ENDS