MANAGING DIRECTOR'S ADDRESS - FLT 2014 ANNUAL GENERAL MEETING

2015 guidance

When we released our 2014 results in August, we also released guidance for 2015.

We said we would target 5-8% growth on 2014's record underlying profit, which would mean an underlying pre-tax profit between $395million and $405million.

If achieved, this would also mean that profit would have:

- Doubled in the five years between June 30, 2010 and June 30, 2015; and
- Increased by a multiple of 21 in our first 20 years as a public company

However, achieving a 5-8% growth rate over the full year will not be a formality.

First half growth is likely to be subdued, as we indicated when we initially released guidance.

We hope to finish this six months with profits broadly in line with the corresponding half last year, which was a relatively strong trading period.

In Australia, we expect a gradual recovery in demand and consumer confidence as the financial year progresses, which will hopefully lead to accelerated second half growth.

Of course, we cannot guarantee this recovery will eventuate and, while sales are growing modestly in both leisure and corporate travel, we are yet to see significant improvement.

First quarter results

Overall, first quarter trading results indicate that we are currently tracking in line with the same period last year.

Several countries have started the year solidly, including the UK, South Africa and some of the emerging Asia businesses, particularly Singapore.

In Australia, first quarter sales increased 3-4% compared to a record first quarter last year and at a lower rate than the company's overall growth rate, which was about 7%.

This slower than normal sales growth and an increased cost base, linked to ongoing investments, means that Australian profits are currently down slightly on the prior year.

Some of these costs are associated with the change in consultant wage structures that we implemented this year and investments we are making to improve the customer experience.

For example, in Australia we have created a customer insights team and a broader product and customer experience area.

As of last week, we also have a single view of the customer, which is a significant step forward from our previous decentralised model and will enable us to better meet customer needs and enhance our marketing efforts.

In Canada, where we struggled last year, sales continue to grow but we are yet to see dramatic bottom-line improvement. Our main issue is again the leisure travel business.

For some time, we have sought to improve results by getting more of the mid to long haul leisure air market, particularly Europe and Asia-Pac, plus the cruise sector. We are also manufacturing Mexico and Caribbean package holidays, rather than simply on-selling suppliers' offerings.

In the USA, first quarter losses are currently significantly lower than last year.

This has been driven by continued strong profits from the expanding corporate travel business, which is on track to turnover more than $AUD1billion this year.

In corporate, we have expanded into Orange County and we expect to open in Austin, Texas and in North Carolina during the fourth quarter.

This will give us a corporate presence in 20 US cities by the end of this financial year.

Normally in the USA, we expect moderate first half losses, given that it is the leisure and wholesale businesses' seasonally slower period, and then stronger bottomline results during the second half, which delivers a full year profit.

That is again likely to be the case this year.

We continue to expand the US leisure business, which is currently trading in line with last year, and will open Philadelphia and Los Angeles hyperstores in the next couple of months.

These will be our third and fourth US hyperstores.

Hyperstores

Hyperstores have become a key part in our overall growth strategy, particularly in the UK, where the concept was developed.

We now have nine hyperstores in the UK - four in London and regional stores in Aberdeen, Leeds, Bristol, Oxford and Manchester.

In Australia, these stores will not be our major growth vehicle but we see opportunities to have flagship stores in major cities. We now have hyperstores in Perth and Brisbane and are about to open a third in Darwin.

Generally, we are looking to open larger stores in Australia to house multiple teams in key shopping centres and other high profile locations.

These Flight Centre "megastores" are larger than normal shops but smaller than hyperstores and typically offer:

- Cost effective access to prime sites - rent is divided across a larger pool of people
- Greater access to expertise - more people in-store means more knowledge is at hand for customers; and
- The ability to trade for longer hours, given that more staff are available

In Asia, the first hyperstore has just opened in Delhi and another is earmarked for Mumbai.

We will also open a hyperstore in Abu Dhabi's Yas Mall before the end of this calendar year.

Acquisitions and network growth

In terms of network growth, we expect to expand our global sales force by 5-7% this year.

Growth will largely be organic, but we will also continue to pursue strategic acquisitions.

They will general be small businesses that we can bolt-on to our existing operations to achieve horizontal growth or standalone opportunities that allow us to grow vertically.

As Gary mentioned, we have recently acquired Travelplan Corporate in Dublin and a 90% interest in Topdeck.

Late last year, we also announced plans to work with the owners of the Buffalo Tours business in Vietnam to create an Asia-based destination management joint venture.

This new JV is now handling "at destination" services for our customers in Cambodia and Laos and will launch in Thailand this weekend. We will expand into other key markets, including Singapore, Hong Kong, Malaysia and Bali during the fourth quarter of 2014/15.

The company also hopes to complement its organic growth by expanding its Escape Travel franchise offering.

We now have 14 franchised stores and continue to talk to people who are interested in becoming part of the Escape Travel network.

Strategic update

Strategically, we continue to focus on our Killer Theme, which is moving from middleman to world class retailer and delivering amazing travel experiences to our customers.

The seven mini-themes that underpin the Killer Theme are outlined in the accompanying slide.

In relation to mini theme 2 - unique product - Gary mentioned that we now offer SmartFLY as an exclusive bonus for our corporate customers and we are finetuning a City Host offering, which will be trialled soon at selected hotels in London, New York and possibly Sydney.

City Host will provide our customers with a personalised concierge service "at destination" to greet and welcome them, offer advice, make reservations, organise transfers and daytrips or arrange theatre tickets.

Mini theme four - our aim to develop our shops as branded business spaces, rather than offices - is also progressing.

Within Flight Centre brand, several concepts that were initially trialled in our hyperstores have been incorporated into our standard shop design.

They include:

- Toblerone desks that allow for more open and personal consultations
- A digital departures board highlighting the best airfare offers
- Scribble maps so consultants can physically map out options for customers
- Product zones showcasing our exciting new product ranges; and
- The use of live, digital content

About 20 new shops in Australia now have these features.

Within our corporate business, we are also shifting away from static office environments and creating more dynamic corporate travel hubs.

Corporate business

In Australia, we have a stable of six dedicated corporate travel brands, each of which focuses on a specific area of the overall corporate travel sector.

For example:

- FCm focuses on large national, regional and multi national accounts
- Corporate Traveller is SME focused and has a 21-year history of success
- cievents is a full service event management business
- Stage & Screen targets the sports and entertainment industries
- Campus Travel specialises in academia - universities, colleges and schools; and
- Flight Centre Business Travel straddles the leisure and corporate markets

In June 2014, we also launched 4th Dimension Business Travel Consulting, an advisory service that offers unique corporate travel benchmarking services, plus advice on airline and hotel rate sourcing, program analysis and contract procurement.

In conjunction with the Centre for Asia Pacific Aviation, 4th Dimension recently produced the *Australian Aviation and Airfare Analysis,* an in-depth review of the domestic aviation industry that attracted significant media attention in Australia.

Corporate Traveller and FCm have become our largest corporate brands and have been keys to the Flight Centre Travel Group becoming Australia's largest business travel retailer.

FCm is now ten years old and operates in 90 countries, via our company-owned businesses and independent licensees in key markets where we do not have equity operations.

Across all corporate brands, our product and service offerings - online booking tools, security, profiling and reporting capabilities - are the equal to any in the industry.

We are also proactively finding clients ways to save on their travel budgets, as evidenced by the recent launch of SmartFLY and other new initiatives.

Ebola and the dollar

In finishing, I'd like to briefly address a couple of issues that we are sometimes asked about.

Firstly, the dollar and its impact on Australian outbound travel and secondly, Ebola.

In relation to the dollar, some commentators recently suggested that slower growth in outbound departures in August - up 4.4% year-on-year - was caused by the Australian dollar's recent weakness.

We don't think that's the case, as the roots of this slowdown can be traced back six months.

Given that leisure travel demand in Australia slowed in-store in May after the budget and we have not yet seen a full recovery, it was inevitable that this would translate to slower growth in Australian outbound travel in the ensuing months.

We believe that currency in itself is not a critical driver of Australian outbound travel.

This belief is based on what we have seen over more than 30 years in business and it is supported by official statistics that we have presented to the market on various occasions.

In short, Australian outbound travel grew in years when the dollar traded at 48 US cents.

The outbound market also grew in years when one Australian dollar was worth $USD1.10.

This year, we have not seen any major shifts in travel patterns - for example, a shift to domestic holidays - and travel to America has actually increased, with our first quarter data showing that the US has gained market-share compared to the same period last year.

We find that customers typically downgrade to lower priced products, travel for shorter periods or pay for more of their holiday products in advance in Australian dollars if they are concerned about currency.

Of course, they may also opt to travel to the multitude of other destinations that trade in other currencies. They will not automatically switch to domestic holidays and there are, in fact, compelling reasons to travel overseas.

We believe we are in a golden era of travel, which is characterised by:

- Cheap airfares - flights are becoming more affordable in relative terms
- More choice - new product ranges are being developed and travellers are being presented with a broader selection of offerings. For example, Qantas and other airlines are expanding their alliance networks and delivering great new options
- Greater luxury and comfort - airline seats and in-flight entertainment programs are better, as are the food and service; and
- Less flying time - flights are now faster, more direct and more reliable

To highlight the significant advances in airfare affordability over the years, we often analyse the cost of return flights between Australia and London.

The price of these fares has hardly changed in 30 years, despite significant increases in inflation and average wages.

We unearthed another relevant example in our archives earlier this week in the form of a flyer from 1996 promoting earlybird flight specials to the UK. This flyer is particularly relevant at the moment, given that we are now in the middle of earlybird season in Australia.

The featured fare in this particular flyer from 18 years ago - a return Cathay Pacific flight from Canberra - was priced from $1784, which is marginally cheaper than Cathay's current earlybird fare from Canberra ($1832).

But in relative terms, the 2014 offer is significantly more affordable.

Based on average wages at the time, the 1996 fare cost about two-and-a-half weeks' pay for the typical worker, while the current offer represents little more than a week's pay.

Converted into today's dollars, the 1996 fare cost about $4000.

We have worked closely with Cathay during the current earlybird season, with Cathay the first airline to launch new season fares to Europe. The move seems to have paid off, with forward sales via our Australian network up solidly.

Etihad has also been very proactive, with highly competitive pricing and product innovation driving demand.

Generally, the price customers are paying for return flights to Europe this year is down slightly on the same period last year.

Overall, international airfare yields out of Australia appear to be reasonably flat, with modest declines on some routes, specifically Asia, Africa and Europe, offset by modest increases in premium fares and on economy flights to the Americas.

While the average fare to the USA is up slightly, you can still get cheap flights.

Yesterday, we advertised:

- Return flights to Hawaii from $855 from Sydney or from $867 from Brisbane; and
- Return flights to LA from $1022 from Brisbane or from $1024 from Sydney

At this stage, we don't think Ebola is having a meaningful impact on travel given that the major areas of concern - parts of West Africa - are not mainstream tourist destinations.

This contrasts to SARS more than a decade ago, when parts of Asia and Canada were affected and it was feared that it would quickly spread to other regions and countries.

This wasn't the case and tourism recovered relatively quickly.

Conclusion

In summary, we are currently tracking in line with expectations and are focused on achieving an underlying PBT between $395million and $405million. While we are experiencing some volatility in Australia, our international businesses are generally performing well.

I will now hand the microphone back to Gary. Thanks again for your support of our company.