CHAIRMAN'S ADDRESS – FLT 2015 ANNUAL GENERAL MEETING

The 12 months to June 30 2015 was the Flight Centre Travel Group's 20th year as a public company and was another significant period for your company.

Operational and financial highlights included:

- Record sales globally and in each of our ten geographic regions
- Strong profit contributions from our international businesses, with combined earnings from our overseas operations topping $100million for the first time and helping us achieve a $363.7million underlying profit before tax (PBT). This was the second best result in our history, but 3.4% lower than the record PBT achieved during 2013/14
- Healthy cash generation, which saw us finish the year with a record global cash and investment portfolio of almost $1.5billion
- Ongoing investments in our network, systems and people to drive future returns. We grew our sales force by 6.3% and increased shop and business numbers by 5.5%; and
- Solid progress in our strategic evolution from travel agent to world's best person-to-person travel experience retailer

These achievements, in a subdued consumer and corporate trading environment in Australia and after a run of strong results since the Global Financial Crisis, are a testimony to:

- First and foremost, our more than 18,500 people in 13 countries
- Our global footprint
- The diversity of our business offerings and the strength of our brands; and
- Our commitment to investing in our business foundations to build for the future

In this address, I will outline the past year's financial and operational achievements, before highlighting some changes that have taken place in recent years to strengthen our business.

Financial overview

Our financial results have been covered in detail in the Annual Report and have been summarised in the presentation on the screen behind me.

As you can see, our company achieved a $366.3million statutory profit before tax for the year to June 30 2015.

While this was a record and a 13.1% increase on the $323.8million statutory PBT achieved during 2013/14, it was 3.4% below the prior year on a normalised or underlying basis.

Similarly, statutory net profit after tax was up 24%, but down 3.3% at an underlying level.

Sales were generally strong with.

- Total transaction value (TTV) increasing 9.7% to a record $17.6billion; and
- All countries and regions achieving new TTV records.

Revenue growth was slightly more subdued at 6.8%, giving us a 13.6% income margin, 40 basis points lower than the previous year.

Segmented results

As you heard earlier, record TTV in all countries and regions and strong profit contributions from our off-shore businesses underpinned our 2014/15 results.

Underlying profit results were, however, adversely impacted by:

- The market slowdown in Australia, which led to lower margins and lower than normal TTV growth. Government statistics show that outbound departures grew at just 2.9% during the year, compared to 7% during 2013/14
- Underperformance in Canada, which was our only region to record a loss; and
- Ongoing investments in people and other areas that will drive future returns

Australia

While bottom-line results in Australia did not eclipse the record 2013/14 result, earnings before interest and tax (EBIT) topped $250million for the third consecutive year.

Our Australian corporate travel businesses generally performed well, making a record profit contribution and turning over about $2.3billion, another record.

Trading conditions proved more challenging for the established Australian leisure businesses, with costs, lower margins and slower than normal market growth adversely affecting results.

Enhancements to Flight Centre brand included a new shop design and an extensive range of new products.

Overseas results

Elsewhere in the world, four geographic regions generated record earnings before interest and tax - the UK, the USA, South Africa and Singapore.

In the UK and Ireland, TTV surpassed the GBP1billion barrier for the first time and the company generated $AUD49.5m in EBIT, a 24% increase on the prior year.

In corporate travel, we secured record account wins and achieved strong customer retention.

In leisure travel, new product ranges were launched including:

- Journeys, unique and superior tailor-made long haul holidays; and
- Escapes, a mid to long haul beach holiday range that was launched in June 2015

The US business performed strongly, with EBIT increasing 69% to $AUD21.4million and TTV exceeding $AUD2.5billion.

These strong results were again underpinned by the corporate businesses, as we expanded into new cities - Silicon Valley and Austin - and gained market share in the world's largest corporate travel market.

In leisure travel, new Los Angeles and Philadelphia hyperstores opened and unique products were launched to help increase sales to Europe, which has been earmarked as a potentially lucrative market for the business.

Elsewhere in the world:

- The Canada business posted a loss after five years of consecutive profits. As you will hear in Skroo's address, a new leadership structure has been implemented and strategies have been introduced to improve performance, particularly in leisure
- The South Africa business achieved record sales and profit, with EBIT increasing 5% in local currency; and
- The New Zealand business generated record TTV and enhanced its blended offering by launching a locally-based 24/7 service, responsive websites and an online booking engine for flights to Australia and the South Pacific

Our businesses in the emerging Greater China, Singapore, India and United Arab Emirates markets are generally small, but are making an increasingly valuable contribution.

These businesses were all profitable and together turned over about $AUD870million, about 5% of the company's global TTV.

In terms of network growth, we are expanding rapidly in this region with shop and business numbers increasing more than 30% in Greater China, Singapore and the UAE.

Further expansion and development will take place this year with additional unique product ranges to be launched, hyperstores set to open in Singapore and Bangalore and a new website with online booking capabilities to be launched in Hong Kong.

Costs

In terms of costs, our major expense items are wages, advertising and rent.

While spending in each area generally increased in line with our expectations, the change in front-end pay structures in Australia led to a significant increase in costs for the leisure business to absorb in a subdued trading environment.

This change was geared towards giving our new sales people greater certainty around their earnings.

We also overhauled our marketing structures to create broader product, advertising and customer experience areas, as outlined in our annual report. This should help us achieve stronger, personalised customer engagement, which should lead to a stronger return on our investments in these areas in the future.

Capital expenditure was about $80million during 2014/15.

This was higher than the spend in recent years, largely as a result of the start of the roll-out of the company's next generation shop designs.

You can see some of these new designs displayed on the screen now.

As announced previously, this year cap-ex will approach $120million and will consist of:

- An investment of up to $70million on shop refurbishments and new store fit-outs as the company continues to roll out its new shop design. In the Australian leisure business, the new design will be rolled out throughout the network over three years
- A $20million spend on head office moves in Australia, the USA and Singapore; and
- A $30million investment in IT software and hardware. The increased investment in this area relates to the roll-out of Microsoft Dynamics as the company's new mid and back-office finance platform, plus the introduction of a new CRM tool for the Australian leisure business

We expect a positive return on our investment in Microsoft Dynamics, given that it will allow us to retire in the order of 10-15 different systems and will help create new efficiencies within the business.

The platform will be gradually introduced, starting with the USA corporate business and FCm in Canada later this year and finishing with the Australia business during 2017/18.

Cash generation

The company finished the year with record cash reserves and minimal debt.

General or company cash increased 18% to $564.7million at June 30 and has now increased by 250% since 2009.

Debt was just $32.8million, giving us a $531.9million positive net debt position.

Our total cash and investment portfolio was $1.45billion at year-end. Cash and term deposits accounted for 95% of this portfolio, with the balance held as fixed interest bonds.

Dividends and capital management

In light of our strong cash position, the directors maintained dividends at prior year levels and declared fully franked interim and final dividends of $0.55 and $0.97 respectively.

This amounted to a $153million return to shareholders - 60% of underlying NPAT, compared to a 58% return the prior year - and took total payments to shareholders beyond $1.25billion since the company listed.

As you just heard, general cash has increased by 250% since 2009.

This reflects the decision that we made in the aftermath of the GFC to increase general funds to allow us to maintain sufficient cash to cover operating expenses for three months.

In recent years, we have also sought to increase cash reserves to ensure that we can capitalise on opportunities that arise.

Moving forward, we will continue to review our three-month policy to ensure it's appropriate, while also continuing to look for opportunities to utilise any excess cash to create additional shareholder value.

Potential uses for this cash include:

- Acquisitions - we're currently looking at a number of prospects; and
- Network enhancements, including shop refurbishments, openings and investments in new systems, which is leading to the higher cap-ex over the next few years

If our cash position exceeds our perceived needs at a point in the future, we will look to return funds to shareholders via the method that we believe creates the greatest benefit at that time.

Growth

The company again complemented its organic growth with small and strategic acquisitions.

After securing Dublin-based corporate travel manager Travelplan Corporate and forming the Buffalo Tours destination management joint venture in Asia late in 2013/14, we acquired touring specialist Top Deck in August 2014.

These businesses have performed well.

This year, the company has already formally completed the acquisitions of:

- Its former FCm licensee in Mexico, Koch Overseas. Koch employs more than 100 people and will bolster our corporate travel presence in the Americas; and
- A 51% interest in Brisbane-based charter and logistics specialist Avmin

In addition, the company has continued to export brands to new geographies, as evidenced by Campus Travel's recent launch in the USA and Stage & Screen's opening in the UK.

Next month, we expect to launch cievents in Canada and Travel Money in the USA.

The Travel Money shop will be implanted into the new Liberty store in Union Square, with our first stand-alone Travel Money to open in Times Square early in the second half.

Travel Money, which is now our fourth largest business by sales in Australia, has been a great success story in recent years and, as a result, has been earmarked for further growth overseas.

Our acquisitions - coupled with the other enhancements we have made in recent years - have made us a more diverse business and a company that does far more than simply on-sells suppliers' products - we are now a true retailer of travel products.

<u>Business evolution</u>

As the 20th anniversary of FLT's public listing approaches - we officially hit the boards on December 1, 1995 - it is appropriate to reflect on the business and to highlight the strengths that are sometimes overlooked.

Our diversity is one of these strengths.

Today, we have vast offerings that:

1. Span the leisure, corporate and wholesale travel sectors: In addition to being a leading travel retailer in its core markets, the company is one of the world's largest corporate travel managers
2. Extend well beyond Australia: We also have company-owned shops and businesses in nine other regions - the UK and Ireland, the USA and Mexico, Canada, New Zealand, South Africa, Greater China, India, Singapore and the United Arab Emirates
3. Provide customers with a broad choice of sales channels: Our customers can interact and transact with the company when and how they want; and

4. Deliver expert service and advice across niche markets and special interest groups, as well as to mass-market customers: We now have more than 30 brands, in addition to the flagship Flight Centre leisure brand

This diversity make us an important partner for suppliers globally and we are working proactively with established businesses and new entrants, particularly in the aviation sector.

You will hear more about this shortly in Skroo's address.

Our ability to evolve our offerings to cater for changes in consumer behaviour and market dynamics is also sometimes overlooked.

This ability is evidenced by:

- The development and rapid expansion of new brands to tap into expanding travel sectors - examples include Cruiseabout, Travel Money and Student Flights
- The creation of the FCm Travel Solutions global corporate travel management network in 2004. The FCm network now extends to more than 90 countries through our equity businesses and independent licensees
- Vertical integration, which has led to the creation of Flight Centre Global Product, our hotel contracting arm, and our moves into tour operations through Top Deck and Back-Roads Touring, destination management through Buffalo Tours and aircraft charter through Avmin
- Enhanced online capability, The online booking tools that we offer corporate clients are among the industry's best, while our leisure sites are key tools for customers looking to transact and interact with our brands; and
- Our success in other retail sectors - examples include the Pedal Group joint venture, which includes cycle retailer 99 Bikes and wholesaler Advance Traders Australia and is growing solidly. Sales increased 24.2% to $56.8million and the JV generated record EBIT of $3.2million

These strengths have traditionally served us well.

TTV has now increased 19 times in 20 years as a public company and has increased at a 16.5% compound annual growth rate (CAGR) since 1995/96.

Statutory PBT has increased at a 16.9% CAGR during the same period, meaning we have effectively maintained net margins over a 20-year horizon.

While we have experienced some share price volatility in recent years, it is pleasing to note that a fictional shareholder who invested $20,000 in our initial public offering had a holding worth in the order of $788,000 at the close of business on Monday.

In addition, this fictional shareholder would have earned more than $273,000 in dividends, taking his or her total return beyond $1million

Conclusion

Before handing over to Skroo, I'd like to highlight some other notable recent events.

Firstly, we won our appeal in the long-running competition law test case the ACCC initiated against us and the $11million fine we paid during the 2014 fiscal year was refunded.

While the decision in our favour in the Full Court of the Federal Court was unanimous, the ACCC has subsequently sought special leave of the High Court to appeal the decision.

Hearings could potentially take place later this financial year.

Secondly, we recently appointed a new chief financial officer (CFO) following Andrew Flannery's decision to take on the responsibility of running the Australian corporate business after seven years as CFO.

As chairman, I would like to thank Andrew for his outstanding contributions we wish him well in his new role. I'd also like to congratulate our new CFO, Adam Campbell, on his promotion and on his birthday!

On behalf of our board, I would also like to thank you for your ongoing support.

I now invite Skroo to address the meeting in relation to our outlook and plans.