MANAGING DIRECTOR'S ADDRESS - FLT 2016 ANNUAL GENERAL MEETING

Thank-you Gary and good morning everyone.

As you've just heard, it's been a fairly busy and eventful start to the new financial year.

While results are not currently tracking at the levels we expect, ticket sales are generally growing solidly, thanks in part to the ongoing price wars in Australia and in various other countries, including the USA and India.

In Australia, the major shifts in pricing have been on international fares.

This means that companies that sell large volumes of international tickets, like Flight Centre and Qantas, will be more affected than companies that predominantly sell accommodation and/or domestic flights.

While we have become accustomed to international fares becoming more affordable every year - they have typically held their price as average wages have increased - in recent times we have seen significant decreases in ticket prices, as airlines seek to fill their planes.

This unprecedented discounting by airlines has delivered incredible value to travellers in the form of some of the cheapest fares we have ever advertised in Australia.

Recent examples have included return fares to:

- London from $899 (ex Melbourne)
- Europe from $799 (ex Adelaide)
- Honolulu from $376 (ex Sydney)
- Los Angeles from $734 (ex Sydney); and
- New York for less than $1000 from various locations

This is obviously great for travellers in the short-term and we like this low-fare environment, which we believe is a key reason why we are currently in a Golden Era For Travel.

It does, however, create challenges when it comes to growing TTV and revenue in comparison to the higher fare environment during the first half of last year.

Today, I will highlight our key achievements so far during FY17, before sharing some insights into our outlook and strategies for the remainder of the year and for the longer term.

<u>Trading Update</u>

I will, of course, also recap on our announcement of last week, which saw us provide preliminary profit guidance for FY17 and reaffirm our goal of surpassing $20billion in TTV for the first time.

We said we would target an underlying PBT between $320million and $355million for the full year, with a subdued first six months likely to be followed by a stronger second half.

Various internal and external factors have affected first half results to date including:

- Slower than normal TTV and revenue growth because of the substantial falls in international airfare prices compared to the prior corresponding period (PCP). In Australia, our ticket sales have increased about 9% so far this year but widespread airline discounting has seen the average international fare decrease about 7% compared to the same period of FY16
- Currency movements. The British pound's depreciation has led to more than $5million in unrealised foreign exchange (FX) losses on the revaluation of forward exchange contracts, in addition to affecting profit translation
- Subdued trading in the UK early in FY17, following the Brexit vote, and in the USA as a result of uncertainty surrounding the Presidential elections and the Zika virus's impact on leisure travel; and
- Lower than expected profits during the Top Deck and Back Roads touring businesses' peak season, with excess capacity during the period leading to decreased bottom-line results, despite increased passenger numbers

While the future impact of FX movements cannot be predicted, we expect accelerated second half growth, assuming current conditions continue.

Growth drivers during this period are expected to include:

- More rapid TTV growth in Australia as a result of the strong ticket volumes being achieved in both domestic and international travel and as airfare prices become comparable with the PCP
- Improved results in Europe as Brexit's immediate implications become clearer and as trading conditions stabilise. We expect the European business's full year results to be broadly in line with the prior year in local currency terms; and
- Benefits flowing from cost control measures that are being implemented throughout the business in the first half

FY17 Highlights

While we will never be content with lower profits, various aspects of our performance this year are extremely positive and encouraging, specifically:

- Record TTV globally, although year-on-year growth so far has been relatively modest
- Improved earnings in New Zealand, South Africa and Canada
- The strong ticket sales in Australia, where growth is outpacing the industry and appears to be accelerating in recent months. For example, tickets to the USA increased about 40% last month and have grown almost 15% so far this year
- Continued investments in our systems and multi-channel network. In the technology space, priorities are to deliver efficient financial management, a single view of the

customer across all channels, leading online/self service capabilities and best product and pricing
- The acquisitions that Gary listed; and
- The introduction of various new products and revenue streams. Some of these have been outlined on the accompanying slide

We have also continued to expand our digital presence and capabilities and have appointed a chief digital officer, Atle Skalleberg, to help oversee our future growth in this area. Atle was formerly StudentUniverse's CEO and has been instrumental to the business's success.

He and his team are currently working on:

- Improving usability and bookability
- Scalability
- Blending our on and offline offerings; and
- Delivering unique access to our agents

We expect our online businesses to generate more than $1billion in TTV for the first time this year, with growth coming from:

- Our recent acquisitions – StudentUniverse and BYOJet
- The Aunt Betty start-up in Australia
- Better capabilities and content on our leisure websites. In Australia, flightcentre.com.au is again performing well and growing solidly; and
- The introduction of new transactional websites in markets that we haven't previously targeted. For example, Asia, Europe and the Americas

Low Cost Carrier sales continue to increase solidly, as expected given the agreements that are now in place in Australia and with improved connectivity and content online.

For example, visitors to flightcentre.com.au can now book a full range of Jetstar, Tigerair and Air Asia fares and ancillary products, while Scoot's full content range will soon be ad.

Despite the growth we are experiencing in-store and online, LCCs are not significantly affecting our ability to achieve super over-ride targets with other carriers given that they:

- Tend to fly to destinations that legacy airlines don't always service in a significant way; and
- Remain a relatively small part of our overall business and of the Australian aviation market in general (about 19%)

The challenges we experienced last year in relation to achieving dollar-based sales targets arose as a result of widespread discounting across the industry, rather than as a result of material changes in our airfare mix.

Network Growth

Our online expansion underlines the work we are doing to sensibly and cost effectively grow our presence across all channels and to ensure we deliver an Instant Quality Response to the large volume of customers and enquiry we are attracting.

Within the Australia leisure business, growth will be geared towards the edges of what we refer to as the Person-2-Person or P2P Index.

These channels include:

- Low touch and low cost online and contact centre offerings; and
- Higher touch offerings, specifically Expos and Events and home-based agent models

Our community and flagship shops sit at the centre of this index.

Expansion highlights so far this year have included:

- The George Street hyperstore's opening in Sydney. This has become FLT's largest shop globally and has traded profitably since its first month
- A new US hyperstore in Chicago, which has given the business a network of flagship locations in New York, Boston, Chicago, Philadelphia and Los Angeles. Our first leisure kiosk has also just opened in the Tysons Corner Center in Virginia
- Leisure expansion into Dublin and FCBT's launch in Ireland and Wales; and
- Corporate travel growth into new markets globally

Later this financial year, Corporate Traveller will open in Mexico, our South Africa business will expand into Namibia and our US corporate business will open in Oakland and possibly two other cities, giving it a 23-city presence in the world's largest corporate travel market.

We are also interested in expanding on Mainland China, which is tipped to surpass the USA as the world's largest aviation market by 2024, and are actively pursuing opportunities.

Expansion in this market is likely to be via acquisition or partnership with a local operator.

Longer Term Growth Strategies

While achieving strong top and bottom-line growth will be a challenge for a company of our size in the current trading environment (1% TTV growth = $193m uplift), FY17 shapes as another significant year in our longer-term evolution.

In board terms, our longer term aim is to expand in four key areas:

1. Leisure travel retailing, which includes the student and youth demographic that we are currently targeting globally
2. In-destination travel experiences, effectively touring and ground handling
3. Corporate travel; and
4. Non-travel and other businesses

Already this year, some of the stepping stones for longer-term growth have been put in place.

For instance, we have enhanced our leisure business through:

- Further improvements across all channels
- The roll-out of Book With Me, a personalised URL for Flight Centre consultants in Australia. About 1800 consultants are now using this new tool
- Our investment in Ignite Travel in Australia; and
- The introduction of new products and revenue streams, which you saw earlier

Our overall aim in this sector is to be the world's best person-to-person retailer.

The in-destination travel experiences businesses include:

- Our tour operators, Top Deck and Back-Roads; and
- A destination management company (DMC) that we started in conjunction with Vietnam's Buffalo Tours. This joint venture DMC now operates in 11 countries and is expected to deliver solid profit during FY17 in just its second full year

In light of this success and the obvious benefits from gaining greater influence over our customers' in-destination experience, we are interested in expanding our DMC offering into new regions in the short to medium term.

We have also indicated we would potentially be interested in hotel management arrangements in the future.

Growth in the in-destination travel experiences area will bring with it a number of potential benefits including:

- Greater control over the product offering
- Margin improvement through vertical integration; and
- The ability to manufacture unique products that FLT owns and distributes through its own sales channels

In corporate travel, we have continued to enhance our offerings, as Gary mentioned earlier, and have secured record account wins so far this year.

Corporate Traveller, our SME-focussed brand, has been rolled out in new and important markets to operate alongside FCM as part of our strategy to develop it as a global offering.

These markets include China, Hong Kong, Singapore, Malaysia, India and the Netherlands.

We have also taken steps to expand into new markets, through our recent agreement to acquire businesses in Sweden, Norway, Denmark, Finland and Germany.

This acquisition, which gives us a considerably stronger presence in continental Europe and a springboard for further growth, is expected to complete during the second half.

We are now one of the world's top-5 corporate travel managers and we aim to progress further through the ranks in the short to medium-term.

Our non-travel and other businesses either operate in sectors that are adjacent to travel or use our business model.

Examples include:

- Travel Money, which has grown rapidly in recent years
- Our bikes business, which is now easily the largest wholly-owned cycle retailer in Australia
- The First Class Education Group; and
- Healthwise, Moneywise and various other businesses that provide services to our people and also to external customers

Business acceleration and incubation is another area of interest in the longer term and we have started to work with leading players in this sector, including Little Tokyo 2 and Fishburners. In Australia, we are also working with venture capital specialist Airtree.

Our aim is to help innovative travel-related start-ups develop their products and offerings, with a view to potentially securing equity in some businesses in the future.

Conclusion

As you have heard, it's been a mixed start to the year in terms of results, but there are some positive signs, particularly in relation to sales growth in Australia.

While we will inevitably face challenges this year, given the current trading cycle, our longer term fundamentals and prospects are sound.

We have a clear vision for the future and have taken positive steps towards achieving our goals.

Thank-you. I will now hand over to Rob Baker.