MANAGING DIRECTOR'S ADDRESS – FLT 2013 ANNUAL GENERAL MEETING

2012/13 results

As you have heard, the group delivered record profit and sales results during 2012/13.

Specifically:

- TTV increased almost 8% to $14.3billion
- Actual profit before tax increased about 20% to $349.2million; and
- Actual net profit after tax increased 23% to $246.1million

Our profit result included $6.1million in non-cash gains relating to favourable revaluations of our head office properties.

Excluding these gains:

- Underlying PBT increased 18% to $343.1million; and
- Underlying NPAT increased 20% to $240million

Profit exceeded initial expectations.

We initially targeted a PBT between $305million and $315million and subsequently upgraded guidance to $325million-$340million and $338million-$342million.

Margins were generally okay, with income margin up slightly and net margin rising to 2.4%.

Operational review – 2012/13

Our three largest businesses – Australia, the United Kingdom and the United States – delivered record earnings before interest and tax, as did the emerging Singapore and Greater China businesses.

In New Zealand, South Africa and India, we achieved solid year-on-year profit growth.

Sales growth was healthy in both Canada and Dubai, but bottom-line results were disappointing compared to the prior year.

Collectively, our international businesses contributed almost $75million to group EBIT, a 20% year-on-year increase, which was nice.

UK EBIT was $AUD32million – up about 30% on the previous record. Leisure and corporate travel sales and profits both increased, with leisure in particular performing strongly.

The USA business recorded $AUD10.9million in EBIT. While this was less than we initially hoped for, it was the business's third consecutive profit and 11% year-on-year growth.

The Liberty leisure and GOGO wholesale businesses were again profitable, while the corporate business increased profit and generated 40% of overall TTV in the USA.

In sales terms, US corporate is our largest individual business outside Australia and is a great growth opportunity.

We expanded into four new cities last year and now have a presence in 15 – Boston, New York, Philadelphia, Washington DC, Chicago, Dallas, Houston, Denver, Phoenix, Seattle, San Francisco, Los Angeles, San Diego, Ramsey and Providence.

In Australia, the leisure travel business performed strongly, more so during the second half.

Flight Centre continued to grow, while combined EBIT from our niche leisure brands almost doubled.

The Australian corporate business generated record EBIT and turnover in excess of $2billion to consolidate its position as the country's largest and most successful corporate travel manager. Results during 2012/13 were, however, somewhat disappointing.

Elsewhere in Australia, an emerging non-travel business unit was formed to include the Pedal Group cycle joint venture, the Employment Office recruitment marketing joint venture, the FC Business School, Healthwise and Moneywise.

Overall results from these businesses have generally been good and the unit as whole will generate in the order of $10million in EBIT this year.

Bikes and Employment Office, as well as the business school, have been performing well.

Last year, Pedal Group generated $36.1million in consolidated sales, 20.7% annual growth, and contributed about $800,000 to group EBIT during its fourth full year.

Wholesaler Advance Traders Australia (ATA), distributor of the Merida, Norco, Lapierre, Centurion, Indi, DK and Free Agent cycle brands, expanded its product range with the addition of Axiom accessories and strengthened its relationship with external retailers by creating a new Bicycle Centre licensing structure.

Seven independent Bicycle Centres have already been established, with ATA providing signage, web, product and fit-out services to participating stores.

Retailer 99 Bikes opened a new Gold Coast store during the year and opened its third Melbourne outlet in Fitzroy in July 2013.

Another new shop has just opened in Brisbane in MacGregor, giving the business 13 shops plus a web-store.

As we mentioned 12 months ago, the ACCC's competition law test case against Flight Centre was heard in the Federal Court in Brisbane in October 2012. The company now awaits the judge's ruling.

Strategies

During 2012, we outlined a five-year strategic blueprint focused on retail efficiency, area-based structure, corporate travel growth, supplier relationships, enquiry management, customer care and helping our emerging businesses become successful sooner.

These strategies are now part of a broader plan, which we refer to as our "Killer Theme".

In simple terms, our Killer Theme is to evolve from a leisure and corporate travel agent into a best-in-world travel retailer.

This evolution will see the Flight Centre Travel Group deliver the best alternatives to customers within their chosen travel segments by ensuring brands:

- Retain special meaning within the marketplace
- Offer unique products; and
- Allow customers to buy those products online, offline or via a combination of both

Significant progress has already been made in each of the seven areas of focus, as outlined in our annual report and in other recent market announcements.

In general terms, these areas focus on:

1. Brand specialisation – within the group, we have about 30 different brands
2. Developing unique products for all brands. Examples include myTime, Black Market Flights, Red Label Fares and smartSTAY
3. Being true experts, not purely travel agents, in our specialist areas
4. Redefining the shop as retail selling space – not office space
5. Offering blended access for customers so they can enquire or transact when and how they want
6. Proactively using information to deliver the right product to the right customer at the right time; and
7. Developing a sales and marketing machine

Outlook – 2013/14

In terms of 2013/14, our target is a PBT between $370million and $385million, assuming stable conditions and excluding possible goodwill adjustments or significant unforseen items.

A result within this range will represent 8-12% growth on the underlying 2012/13 result.

Trading results so far are promising and indicate that we will be tracking within our targeted range in PBT terms at the end of this month (October).

TTV growth has also been solid.

It is, of course, very early days and it is premature to extrapolate current growth rates over the full year.

As we have said before, comparatives will become more difficult as the year progresses, so maintaining the current trajectory will become more challenging.

Preliminary trading results are also subject to adjustment in the lead-up to and during the half and full year audit and review processes.

We have publicly flagged the possibility of goodwill impairment in India and the USA and it's possible that some legacy IT programs could be written down, as we have started to investigate alternative solutions that could be a better fit for our business moving forward.

In terms of our individual businesses:

- Australia, the UK and NZ are all currently tracking comfortably ahead of last year
- South Africa is up solidly in local currency
- Both the USA and Canada are currently ahead of last year, thanks largely to the performance of the local corporate businesses
- The Singapore, Greater China and Dubai businesses are performing well; and
- India is profitable but remains a challenge

As expected, currency fluctuations do not seem to have affected Australian outbound travel.

Results from both our leisure and corporate businesses in Australia have improved year-on-year, with leisure currently recording stronger growth – continuing the trend that was evident during the second half of last year.

Flight Centre brand is performing well and growing.

New and recent initiatives for our largest leisure brand include:

- Significant enhancements online as part of the development of a blended offering
- Launch of an exclusive new product range – Red Label Fares
- Expanded 24/7 capabilities, with larger round-the-clock sales teams in place in Sydney and Brisbane to service the large amount of customer enquiry that now comes in after 6pm
- Build-up in specialist teams servicing round-the-world enquiry, small corporate accounts, group travel and first and business class
- The opening of a new hyperstore – the second in Australia – in Brisbane's Queen Street Mall. Some of this store's new features will be introduced in other Flight Centre shops in the future; and
- New television ad campaigns that highlight the brand's expanded offering

As we have said previously, we will boost our overall sales and marketing spend this year, following a lower than normal spend during 2012/13.

Elsewhere within our key business segments, the UK management team continues to focus on its goal of delivering just under GBP1.5billion in TTV by 2017.

This was an internal goal that was set during the GFC as a motivational stretch target, but the business has performed strongly in recent years and could yet achieve its target.

This year, new hyperstores are scheduled to open in Victoria (London), Bristol, Leeds and probably Aberdeen, with the Victoria store due to open tomorrow.

The USA business is set for its largest year of growth since the Liberty/GOGO acquisition.

This will see:

- Hyperstores, featuring flagship Liberty stores, opening in Boston, Philadelphia and possibly Chicago. Boston is due to open before Christmas
- Teams added to existing Liberty stores where space allows. This includes new teams and sales desks in the Flight Center brand, which is a 24/7 specialist airfare brand
- A transactional website launched for Liberty during the next few months; and
- Expansion in the range of unique product that Liberty and GOGO offer

The corporate business will expand into at least two new cities later this financial year, giving it a 17-city presence in the world's largest corporate travel market.

We're currently looking at Atlanta, Minneapolis, Miami, Detroit and Charlotte.

The US corporate market is estimated to be in the order of $200billion per year – making it roughly 20 times the size of Australia's corporate travel market.

Expansion

An overall aim this year is to expand our global sales network by 8-10%.

In terms of shop numbers, we are currently tracking within this range, albeit at the lower end.

Corporate BDM numbers are growing more rapidly, as we seek to win new accounts and grow market-share globally.

In terms of our network growth, expansion will predominantly be organic, although we will pursue some strategic acquisition opportunities.

Acquisitions are likely to be capital-light businesses that can be vertically integrated without the company taking on significant physical assets.

Opportunities may include:

- Hotel management arrangements or joint ventures in some key markets
- Destination management companies; and
- Wholesale tour operations, given the success we are now having with the small Back-Roads Touring business in the UK and potential synergies that may arise

Last week, we also announced a plan to expand our franchise business in Australia in the Escape Travel brand. This follows approaches from agents who are currently aligned to other networks.

Franchise growth will complement Escape Travel's organic growth.

This year, we plan to invest in the order of $60million in capital expenditure as we continue to grow the network.

About $40million of this will relate to our shops – new stores and refurbishments – and about $20 million will relate to IT software and hardware.

Capital management

As you have heard, we have continued to build cash, while investing in the business, lowering debt and improving shareholder returns.

A healthy cash balance will allow the company to capitalise on opportunities, including acquisitions, and buffer it from any future economic downturns.

The board's policy is to maintain sufficient funds to cover three months' operating expenses. This equates to somewhere in the order of $400million in company cash.

If and when surplus cash is generated, we will consider returning excess funds to shareholders.

While all options will be considered, the board's current preference is to increase longer term dividend yields, rather than one-off distributions.

Thank-you again for joining us today and for your support of our company.

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