



FY17 Chairman's Address, by Gary Smith

Today, I will talk briefly about our company's achievements during the 2017 fiscal year, before inviting Skroo to address this meeting and to share his plans for 2018.

Looking back to last year ...

While we didn't deliver a record profit, we did reach several key sales-related targets, including:

- Exceeding \$20billion in total transaction value (TTV) for the first time; and
- Topping \$1billion in online leisure sales, a milestone that we also achieved for the first time

These milestones were achieved in a relatively subdued trading climate and highlight both the strength of our offerings across multiple geographies, channels and sectors and our distribution model's ongoing relevance and importance to our customers and suppliers.

On another positive note, our company achieved several important strategic objectives by:

- Increasing productivity, which has allowed us to grow sales in a more efficient manner. TTV per person is our productivity metric and is increasing globally
- Further expanding our three core business units - specifically leisure travel retail, corporate travel and in-destination travel experiences - across our major geographies
- Initiating a transformation program that we will talk about in more detail later; and
- Expanding our unique product ranges, which complement the products we sell on behalf of our suppliers and distinguish our offerings from those of our competitors

These unique product ranges include:

- Journeys and Escapes, package ranges which generated more than \$150million in TTV in Australia during FY17, plus an additional GBP55million in the UK
- Flight Centre brand's popular Captain's Airfare Packages, which deliver value added bonuses to customers who choose to add them on to airfare deals

- GET LUXE, voucher-style packages that are now available in Australia. These packages are offered in conjunction with Ignite Travel, an investment we made last year; plus
- The custom-made flights, packages, tours and other products that our people create, either in-store or as part of our in-destination businesses, for our customers

Because of our size and our close relationships with our suppliers, we are also able to source a large number of exclusive, private airfares.

Examples include the European earlybird fares that we have been selling at our recent World Travel & Cruise expos throughout Australia.

Strengthening our IT backbone has been another strategic priority in recent years.

New in-store technology has now been deployed throughout most businesses, with the roll-out in Australia and New Zealand underway and likely to be completed in the second half.

Looking forward, we will continue to strengthen this crucial area and we expect to allocate a larger proportion of our capital expenditure to system enhancements in the future.

FY17 Results

In terms of our financial performance last year, the company's results have been summarised on the accompanying slide.

Underlying PBT - at \$329.5million - was towards the lower end of the range that we outlined when we first released guidance at this meeting in November 2016, but at the higher end of the revised guidance that we released in February 2017.

Profit was down on the prior year and was adversely affected by a combination of factors, some cyclical influences and some that were within our direct control.

Cyclical factors included airfare deflation in Australia and currency movements.

Airfare deflation, driven primarily by rapid international capacity growth, delivered some of the cheapest fares we have ever advertised and was positive for our customers.

However, the significant year-on-year price reductions that we saw for much of the year on our core product - international airfares - slowed revenue and TTV growth and, ultimately, profit growth.

This was particularly evident in Australia, where:

- Our international ticket sales increased 10.5% and comfortably outpaced the 4.1% outbound travel growth rate (Source: Australian Bureau of Statistics): but
- Revenue growth was relatively modest, which led to lower overall profit

The British pound's rapid devaluation following the Brexit referendum also provided a significant headwind, particularly in relation to profit translation and forward exchange contracts that we held in some parts of the business.

So severe was the pound's devaluation that our UK business delivered a 9% profit increase in local currency to GBP 27.6million but the result translated 10% lower in Australian dollars.

While TTV increased by \$800million or 4% during the year, growth was adversely affected by the deflationary and FX impacts that affected profit.

At like-for-like exchange rates, TTV would have increased 7% compared to 2016.

TTV growth, both on an actual basis and in constant currency, outpaced the 2.4% growth in sales staff, again highlighting the company's success in increasing productivity.

Revenue increased modestly to \$2.7billion, which led to an underlying 13.3% income margin (Compared to 13.6% during 2016).

This income margin reduction was largely driven by business mix changes, specifically:

- Corporate travel growth - the company won a number of large and high profile accounts in Australia that are lower touch and trade on lower income margins; and
- Strong growth in direct online transactions or e-commerce, which is weighted towards simple and lower margin airfare transactions

Other key financial achievements included:

- Continued balance sheet strength, highlighted by a \$474.3million positive net debt position at year-end

- A \$295.4million operating cash inflow over the year; and
- A fully franked \$140.4million shareholder return via the combined dividend payments

Segmented Results

Internally, we divide our business into five key geographic regions or segments:

- Australia and New Zealand
- Europe, Middle East and Africa (EMEA)
- The Americas
- Asia; and
- Global or Other, the segment that our in-destination businesses sit in

During 2017, sales results were generally solid with most countries within these regions delivering record TTV. The USA and the UK (in local currency) also delivered record profit.

In Australia and New Zealand, full year profits decreased.

This largely reflected a challenging first half, with both countries performing solidly during the second half and surpassing their prior corresponding period profit contributions.

Sales increased in both leisure and corporate travel over the full year, with the company achieving record air volumes and record room nights sold, despite a fairly subdued trading climate which saw lower than normal growth in outbound travel.

The Americas businesses generated about 10% of our total profit, thanks to the record US profit, Canada's strong turnaround and a small profit from our Mexico corporate business.

Our Canada and US corporate businesses again performed strongly, with US corporate TTV topping \$US1billion for the first time.

Leisure and wholesale losses in Canada and in the US decreased slightly as the company decreased costs and successfully improved productivity across a smaller network.

Our online retailer, StudentUniverse, generated about \$AU420million in TTV in its first full year, strongly exceeding its targets, in addition to delivering digital expertise that is now being utilised globally to help us develop scalable multiproduct platforms, boost mobile services, surface unique content and improve conversion and enquiry.

The StudentUniverse acquisition in December 2015 has been a catalyst for the creation of a digital centre of excellence in Boston, which we call dNA or digital North Atlantic.

Within dNA, we now have 25 full-time employees working on innovative projects and helping local management teams develop digital commerce strategies as well as online marketing systems for our leisure brands, to fast-track our digital transformation efforts.

The EMEA operation, which was combined as a business unit during the year, generated almost 20% of group profit, despite the FX movements which impacted UK profit translation.

After a year of significant expansion on continental Europe through acquisitions in key corporate hubs, we now have an equity presence in 10 European countries and a very strong platform for future growth.

Just three years ago, this business only operated in the UK.

In Asia, the company recorded solid sales growth as TTV topped \$1billion for the first time.

The region achieved a small loss, with profit on Mainland China offset by modest losses in Singapore, Malaysia, India and Hong Kong.

During the second half, a regional leadership structure was introduced in Greater China, Singapore and Malaysia. This has reduced costs and, along with the closure of the loss-making Singapore leisure shops, should help the business deliver stronger results this year.

Within the Travel Experiences Network, tour operators Top Deck and Back-Roads, recorded disappointing results. Operational issues within Top Deck, which have now largely been rectified, and the adverse FX movements that I outlined previously were the main contributing factors.

Buffalo Tours, our destination management company or DMC in Asia, performed strongly and has now been expanded, with the Buffalo business in Vietnam added to it and Flight Centre Travel Group increasing its ownership of the overall business from 49% to 58.5%.

Agreements are in place for Flight Centre to increase its holding to 85% in the future.

M&A

While sales growth and profits were predominantly generated organically, seven small acquisitions were completed during FY17.

Since year-end, FLT has also acquired:

- BHMA, a hotel management group with 14 Thailand properties and another 19 in Thailand and Vietnam in the pipeline

- Olympus Tours, a Mexico-based DMC that will operate alongside Buffalo Tours as a key part of the Travel Experiences Network
- New Zealand's Travel Managers Group and the Sydney-based Travel Partners Group, leisure-focused businesses with strong home-based or independent contractor networks
- New Zealand corporate business Executive Travel, an acquisition that has strengthened our market-share in the business travel sector; and
- Les Voyages Laurier du Vallon, a Quebec-based company with leisure, corporate and Meetings, Incentives, Conferences and Events businesses

These acquisitions are summarised in the table that is now on screen.

The rationale for acquiring these businesses has been to develop a footprint for organic growth in important markets or sectors.

For example, a major reason for the BHMA acquisition was to gain access to the business's operating systems and expertise, rather than its small but expanding property portfolio.

We can now tap into this expertise to pivot the offering towards larger properties in A-grade locations in Tier-1 destinations, particularly where we already have strong market-share.

While we will continue to consider opportunities that arise, we do not currently anticipate any significant M&A activity in the near-term, as we focus on bedding down the recent additions.

Capital Management

While short-term M&A activity is likely to slow, over the longer term we expect to invest some of the cash that we have accumulated in acquisitions and in other initiatives that will create shareholder value.

If we reach a surplus cash position in the future, we will seek to return excess funds to shareholders via the method that we feel is most appropriate and most beneficial at the time.

Options include a share buy-back, an increased dividend pay-out ratio or a one-off return.

Transformation Program

In our recent market announcements, we have outlined our new transformation initiative, which aims to deliver profitable and scalable growth and to extend our long record of success, which now includes 21 years of TTV growth in 22 years as a listed entity.

Profit historically followed a similar trajectory to TTV but has stagnated or decreased since the end of the 2014 fiscal year, when outbound travel growth started to slow in Australia and as the company has invested heavily in future growth initiatives.

Through the transformation program, which Melanie Waters-Ryan heads, and other initiatives that are underway globally, we will seek to develop a stronger business that can grow both top and bottom-line results throughout the trading cycle.

Targets are in place and progress has already been made, as Skroo will explain shortly.

People

While we are successfully growing low cost channels, enhancing productivity and seeking to slow overall cost growth, we remain a person-to-person business.

Accordingly, we continue to invest in our people and in strategies that will improve retention, their health and financial wellbeing and create a brightness of future within our organisation.

One of the investments that we have made recently was the move to our new global headquarters just down the road from here at Southpoint.

This move allowed us to bring all of our head office people together under one roof and has been positive from both a cultural and productivity perspective. Recent guests have included the All Blacks and the Irish president, along with numerous corporate clients.

The company is also taking positive steps to enhance its gender diversity record.

Programs are in place to help women progress within the organisation and a senior executive in Australia has been given responsibility for developing new programs and for removing any potential career roadblocks to advancing.

About 75% of our staff and about 50% of our leaders are women and we believe we can increase this percentage in the future and play a proactive role in developing leaders who can progress to the highest levels.

In Australia, we have 13 nominees in this year's Women In Travel Awards, which is a great achievement.

Board Composition

I am pleased to also announce today our intention to formally appoint Colette Garnsey as a non-executive director early in the 2018 calendar year.

Colette will effectively replace Cassandra Kelly, who resigned last year.

When this board vacancy arose, we immediately initiated a search for a director with a skill-set that would bring new perspectives and dimension to the board and to the business.

Colette, with her more than 30 years of experience in the global retail industry, is the ideal candidate and we are pleased that she will soon join us.

She has held senior roles at David Jones, Pacific Brands and, more recently, Premier Investments and has proven expertise in the important areas of brand and consumer insights, cross channel marketing, international business and innovation.

Colette has also served on the advisory board of Australian Fashion Week and the Melbourne Fashion Festival, in addition to advising the CSIRO, The Federal Innovation Council and the business advisory boards of various Federal Trade and Investment Ministers.

In addition to moving to strengthen our board of directors, we have also recently formed an external Boston-based digital advisory board to provide additional expertise and oversight in the digital commerce area, which is one of our major growth engines and areas of focus.

This new advisory board includes:

- Our Boston-based chief digital officer, Atle Skalleberg
- Travel technology specialist Hugh Crean
- Nicolas Brusson, the CEO of tech innovator BlablaCar; and
- Retail strategist Kimberly Nemser, of Warby Parker

Corporate Social Responsibility (CSR)

Another area that is very important to us and to our people is corporate social responsibility.

The Flight Centre Foundation, which started in Australia in 2008 and has since expanded overseas, is a key element in our overall CSR platform.

Since its inception, the foundation has donated \$10.5million to its chosen charities and causes. Globally, the company donated about \$2.9million alone last year.

We have also expanded our CSR focus to raise awareness of key issues such as Responsible Travel and now have a Responsible Travel Charter to help our customers and people make responsible travel choices based on considerations across four areas - social, economic, environment and wildlife.

To help us achieve our objectives, we have become a member of or formed affiliations with several expert groups and bodies including the UN Global Compact, ReThink Orphanages and the International Institute for Peace through Tourism.

Shareholder Interaction

We also listen to feedback from and, where possible, take a proactive approach with various groups that seek to represent and protect shareholder interests.

This includes proxy advisors and the Australian Shareholders Association, a body that is again represented at today's meeting.

As you may recall from this meeting last year, the ASA has asked us to consider adding performance hurdles to our existing long-term retention plan, which is a hybrid long-term incentive that is designed to meet our strategic objectives and complement our other remuneration structures.

We have indicated that we will consider changes at the end of this year, when that plan is up for review, but have also noted that the LTRP has been extremely successfully in achieving its aim of helping us to retain key executives in a very competitive marketplace.

Conclusion

In conclusion, I would like to thank our 20,000 people globally for their efforts last year and for the contribution they will make to our success this year.

Looking forward, it is always difficult at this early stage to anticipate market conditions, but we feel we are strongly positioned to improve on our achievements of last year. We will continue to focus on the clear growth and improvement opportunities we see within our

business and aim to deliver improved returns to shareholders as we start to benefit from the investments made in recent years and as our new initiatives start to gain traction.

Once again, thank-you for your ongoing support. We look forward to updating you on our progress during the year.

I now invite Skroo to address the meeting ...