FLIGHT CENTRE LIMITED

ANNUAL GENERAL MEETING – MANAGING DIRECTOR'S ADDRESS

This morning, I thought I'd share with you:

- A high level overview of our first quarter and our full year expectations
- Details on some of the growth opportunities we see; and
- The strategies that are in place to try to ensure we deliver solid shareholder returns this year and beyond

First quarter

As we indicated when we released our 2009/10 results in August, we have started the new financial year with good momentum.

First quarter profit results have improved in Australia and in each of our international businesses, compared to the previous corresponding period.

Last year's first quarter was, of course, a relatively weak trading period, as most businesses continued to be affected by the Global Financial Crisis.

Overall results improved during the course of 2009/10, which means maintaining our current profit growth rate will become more challenging as the year progresses.

However, so far we are pleased with our performance.

Our profit year-to-date is a record for this particular quarter and is about 15% up on 2008/09, which was previously our best first quarter.

We are currently performing in line with expectations, which means we remain on track to achieve our full year target of a $220million to $240million pre-tax profit, assuming our trading conditions don't deteriorate or some unforeseen event occurs.

Some analysts have recently speculated that we would upgrade our full year profit expectations today. It would, of course, be premature to take that step, after just one good quarter.

Following our strong second half performance last year in leisure travel, we have experienced a moderate slowdown in the sector during the early months of 2010/11

This has been offset by strong corporate travel results, with all corporate businesses profitable at EBIT level during the first quarter with the exception of the emerging Singapore FCm business, which generated a small loss.

In corporate travel, the company is now benefiting from its:

- Strategy of boosting its sales force to target and win accounts during the GFC; and
- The renewed focus on the SME sector, following the reintroduction of Corporate Traveller brand in Australia, the UK, New Zealand, South Africa and Canada

In terms of our individual countries, best performances to date have come from Australia and the UK.

The UK business is now consistently our largest profit generator outside Australia and continues to record healthy growth, despite challenges in the local economy.

The UK leisure and corporate businesses have both performed well, with the new hyperstore in London's Oxford Street profitable in its first month.

The hyperstore is a new concept and involves six or seven businesses sharing a leased building, thereby diluting the traditional rental obligation.

Typically, a Flight Centre retail shop will be based on the hyperstore's ground floor to capture walk past traffic and other teams that rely more heavily on web or phone enquiry will be based upstairs in the building's off-street locations.

In the USA, losses have again reduced.

Given this business's seasonality, we expect it will follow the same trend as last year by recording first half losses, followed by profits in the second half, which is traditionally the peak booking period.

We are targeting a full year EBIT result in the order of $5million to $10million, although TTV will be down in the USA.

While we have experienced TTV growth in the order of 15% in Australia so far, overall TTV growth during the first half is likely to be seen as more modest, because of the strong Australian dollar's impact on translation of our overseas results.

For example, UK sales increased 24% in local currency during the first quarter but only 8% when translated into Australian dollars at the prevailing rate.

In terms of the Australia dollar's impact on outbound travel, we believe that while a strong dollar certainly benefits travellers, it is typically a secondary consideration.

Generally speaking, airfare prices are the primary consideration for most travellers.

The good news for travellers planning an overseas trip at the moment is that international fares remain well below historic levels and are probably more affordable than ever.

For example:

- The cost of the cheapest return ticket to London is now similar to the average weekly wage in Australia
- A return flight from Brisbane to Los Angeles is now about $950 – about half the price that it was just two years ago; and
- From Sydney, you can fly return to Christchurch from $298 or to Fiji from $395, prices that are not dissimilar to the cost of domestic airfares in the not-too-distant past

<u>Growth opportunities</u>

While we do not expect to maintain our current profit growth trajectory over the full year, we continue to see growth opportunities within our business.

Assuming current conditions continue, we should benefit from:

- TTV growth generated by normal shop and business growth
- Continued modest growth in international airfare prices – fares remain well below 2008/09's first half, following massive discounting during the GFC
- The corporate travel rebound, which we have already started to see in all markets
- A positive contribution from FCm India, which is currently performing slightly ahead of expectations; and
- Further turnaround in USA results

After moving away from tiered supplier contracts in recent years, we have again sought fixed margins in our contracts globally and have generally achieved this.

What this means is that super-overrides, which are additional rewards for clearing dollar-based performance hurdles, now represent a smaller portion of overall margin and our focus in contracting is on guaranteed front and back-end margins.

We will continue to keep a close eye on airlines' fuel surcharge policies and also the application of other additional charges that are generally classed as taxes.

Our opposition to surcharges is well known and recent court decisions in Australia are likely to force those airlines that continue to treat fuel as somehow separate to the cost of the airfare to rethink their positions.

Clearly, Flight Centre and other travel agencies should have been paid normal margin on the hundreds of millions of dollars in fuel surcharges they collected for airlines since 2006.

While we made a commercial decision to opt out of the Australian class action that was successfully launched against Qantas, we continue to consider our options in relation to other fuel surcharge money that should have been paid to Flight Centre.

Elsewhere within our businesses, we see ongoing growth prospects in all countries, including Australia, which remains FLT's largest and most successful market.

When will FLT reach saturation point?

The reality is we see ongoing growth opportunities in travel and in our other sectors and in online and offline channels.

Expanding our corporate travel market-share is an obvious strategy, as is expanding in niche leisure travel segments, which we are successfully doing through brands like Cruiseabout, Student Flights and Intrepid retail.

We also see opportunities to build on Flight Centre brand's reputation for providing the best value airfares to customers, as it has done since it introduced cheap airfares to Australia in the early 1980s.

To highlight our commitment to never being beaten on price, we have introduced our Lowest Airfare Guarantee, after using Price Beat Guarantee for the past five years.

This guarantee sends a powerful and clear message to cost conscious travellers who sometimes believe – often wrongly – that online airfares will be cheaper.

In the USA, our strategy in the Liberty retail travel business is to capture a larger slice of the offline travel market.

While Liberty has not yet contributed positively to EPS, the Liberty-GoGo acquisition has delivered benefits, particularly in for our global product business.

GoGo, our US wholesaler, has continued to trade profitably, while the business's directly contracted Mexico, Caribbean and North American rates have been added to our product databases and made available to customers and consultants worldwide.

Within Liberty, poorly located shops have been closed, a leaner structure has been put in place and our key Flight Centre operating systems have been implemented.

We are confident the appropriate building blocks are in place and are initiating a shop growth plan, which will see about 10 new shops this year.

These new stores are in better locations than their predecessors and can typically be secured for a fraction of the traditional rental requirement.

Liberty is, of course, our largest acquisition to date.

While we may consider acquisition opportunities from time to time in the future, our focus will generally be on improving and growing the businesses and brands that we already have.

Any acquisitions in the short to medium term are likely to be niche opportunities that fast-track our growth in segments that we believe we are under-represented in.

Our acquisition of gapyear.com earlier this month is an example of the kind of opportunity we may consider.

ARGENTI STRATEGIC ELEPHANTS

In addition to our normal business improvement initiatives, six key strategies are in place globally to improve results

These strategies relate to:

- Attracting and retaining the right leaders in the right numbers through FLT's graduate recruitment program
- Sourcing and manufacturing unique air and land product for FLT customers
- Using FLT's "One Best Way" in all major areas, such as brand guides and customer systems
- Applying effective business growth systems and milestones follow-up on new, emerging and acquired businesses, including online travel agency opportunities as well as India and the USA
- Enhancing FLT's global distribution system for air, land and the web; and
- Defending against and embracing the web. By using the proven Flight Centre business model, reinforce and differentiate the offering of our bricks and mortar brands and also use the internet as a tool to sell highly commoditised products

Cost containment, as usual, is another priority.

FLT has, however, increased its investment in several key areas, including the wages paid to retail sales staff in Australia to better reward travel consultants for the increasing complexity in their roles and to grow sales and productivity overall.

This increased expense will be partially offset by both an expected increase in consultant productivity and a decrease in senior executive remuneration as our growth on last year will be much more modest.

In terms of shareholder returns during the year ahead, our Board does not currently anticipate any material changes to our current dividend policy.

Under this policy, we aim to return 50-60% of net profit after tax to shareholders, assuming conditions are stable and subject to the business's cash requirements when future returns are determined.

Thanks again for taking the time to join us today and for your ongoing support of our company as shareholders.

ENDS