Flight Centre Limited

Annual General Meeting

Chairman's Address – October 27, 2005

INTRODUCTION

Good morning

It is my pleasure as Flight Centre Limited's chairman to extend a warm welcome to our shareholders and guests who are here with us for our 10th annual general meeting.

Today, I will recap on our results and achievements of 2004/05, before outlining indicative first quarter results and our view of the longer-term future.

Before proceeding, I'd like to briefly reflect on some of our company's milestones in our first decade since floating on the Australian Stock Exchange.

Our company has grown significantly during this period.

In the year to June 30, 1995, our last year as a private company:

- Our total transaction value was $759 million
- Our net profit after tax was $7.6 million
- Our business was predominantly centred around Australia and – to a lesser extent – New Zealand
- And our operations were focused mainly on the leisure market

Today, Flight Centre Limited is:

- A truly international business with company owned operations in nine countries and formal licensing agreements in many others. (our goal is 40 or more)
- A diverse business with extensive leisure, wholesale and corporate operations, including the flagship Flight Centre and FCm Travel Solutions brands and a number of niche brands
- A business that offers customers the enormous advantage of choice. Choice of product and also of sales channels – shops, corporate travel service, websites or call centres.

We have become one of the world's largest travel sales and distribution networks.

If we achieve our stated target for this year, we will generate almost $8 billion in total transaction value for airlines, wholesale travel companies and other suppliers.

I feel we can be proud of our company's achievements but our sights are set on the future and on building a stronger business for the decades to come.

This will not be easy as our industry (as most others) faces genuine challenges.

Also today, I would like to make special mention of Norm Fussell, who formally retired in July on his 10th anniversary as chairman of our company's Board of Directors.

Norm has served the company, its people and its shareholders very competently and selflessly over the past decade. It is no secret that his leadership, knowledge and experience have been significant contributors to our success during this period.

It's great to see Norm here with us today and we wish him well in his future endeavours.

2004/5 RESULTS

As you will know, the profit improvement for the year to June 30 2005 was disappointing for our company.

It also was a period of significant investment and change as we continued to develop our business foundations for the future.

Our results for the year are outlined on this chart.

You will see that TTV showed an increase of 17% to new levels in an increasingly competitive trading environment.

Profit was below our initial target and was affected by increased overhead costs and a decrease in income margin. This reflects pressure on air margins and insufficient sales growth to reach some top-tier override targets. In terms of costs, we were simply not disciplined enough in controlling some of our overheads.

Total dividends for the year were 50.5 cents a share fully franked.

Governance

In terms of our ongoing dividend policy, our Board is committed to creating and safeguarding shareholder value and will continue to adopt a sensible but reasonably conservative approach to returning funds to shareholders.

Subject to the company's cash requirements, our dividend payout rate will be in the order of 50-60% of net profit.

Naturally, this will vary according to our anticipated acquisition and capital needs.

We have signaled our intention to add two non-executive Directors to our Board and expect to make an announcement in this regard in due course.

Executive Remuneration

As you will be aware, executive remuneration has been in the spotlight recently.

Flight Centre Limited's fundamental remuneration policy is to link performance outcomes with reward.

Our people's remuneration packages typically consist of:

- A retainer
- A performance-based incentive and
- Possible equity participation through the Employee Share Plan or Option Schemes

Our Board members do not participate in the Employee Share or Option Schemes. Within the broader Flight Centre Limited community, no new options were issued during the past year under the Employee Option Scheme.

We strongly believe in encouraging our people to take financial and emotional ownership of the company and, in some cases, of their business by:

- Investing in Flight Centre shares
- Or, in the case of business leaders, investing in their individual operations through the company's Business Ownership Scheme

We are currently modifying our Employee Share Plan to ensure shares issued in future are bought on market. This will eliminate any dilution of EPS through the plan.

Overall, I believe that our remuneration policies fairly reward our people for their efforts and achievements.

Having said that, I was unhappy that some rewards, as outlined in the 2004/05 Annual Report, seemed to be out of line with the company's achievements in a challenging year.

As a Board, we have looked at and discussed these specific examples.

They were achieved fairly under the incentive structures that were in place. However, we have introduced a capping system for 2006 with all support salaries so anomalies can be nipped in the bud unless very clearly earned and deserved.

Before outlining our operational highlights for 2004/05, I would like to rectify an oversight relating to our full year accounts. A paragraph relating to Auditor Independence was inadvertently omitted from our most recent Annual Report.

The paragraph should have read:

"The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. And further that the nature and scope of the non-audit services did not compromise the auditor's independence. "

HIGHLIGHTS AND EXPANSION

The company continued to grow its leisure and corporate travel operations during 2004/05, with selling staff numbers increasing 11% globally.

In the leisure market, Australia's 500th Flight Centre shop opened in January and, with our ongoing growth, our flagship retail brand will surpass 1000 shops globally this year.

This is in addition to the Escape Travel, Student Flights and Travel Associates shops that the company offers to cater for the various market niches.

In corporate, the company invested significantly in its future by launching the FCm Travel Solutions network.

With FCm's creation, we have successfully built one of the world's largest corporate travel management networks by:

- Rebranding our existing businesses
- Acquiring new businesses
- And through licensing agreements with independent local operators in key international markets

We also recorded strong growth in our wholesale brand, Infinity Holidays, to the extent that Infinity is now the largest supplier to our global shop network.

Other operational highlights included:

- The establishment of a joint venture corporate travel business in China and the acquisition of a 51% stake in India's Friends Globe Travels
- The acquisition of travelthere.com
- The introduction of enhanced leisure online businesses in Australia, Canada and the United States, which helped the company increase online sales significantly
- The RewardPass loyalty program's Australian launch

Australia

In Australia, the leisure travel business again recorded good results. Flight Centre brand continued to grow, while the Student Flights and Escape Travel brands were profitable.

This year, the company will continue to focus on cost reduction in its support areas and on growing its leisure online businesses as well as continuing expansion of its bricks and mortar shops.

In the corporate travel operation, strongest performances came in the TMS and conferencing markets. During 2005/06, the focus will be on servicing and retention of our corporate clients, client acquisition and growth.

Our rapidly growing brand, Campus Kistend, which focuses on university business, is also on the radar as a solid opportunity to provide a niche market with superior service, prices and products.

New Zealand

In New Zealand, profit was similar to 2003/04. The company was unable to achieve its major sales targets, which impacted on some major override earnings.

A streamlined support structure is now in place, and modest retail and corporate growth is planned for the year ahead. The leisure online business has been enhanced with the addition of a New Zealand domestic booking engine to the flightcentre.com site.

South Africa

The South African business achieved 11% profit growth in a year that saw nine new shops opened.

Growth in 2005/06 will come via increasing selling staff and shop numbers. A new online booking engine will also be launched.

United Kingdom

The UK leisure business's profit growth was reasonable, while business travel brand Britannic performed in line with expectations. Selling staff numbers increased by 27% as the company continued to develop its presence in the leisure and corporate markets.

Further profit growth and expansion are expected during 2005/06.

United States

TTV increased by 16%, but losses were marginally greater than in 2003/04. The company continued to integrate its US and Canada businesses and expects continued modest growth, mainly in its profitable corporate business, during 2005/06.

Canada

The Canadian business achieved 24% TTV growth and losses in line with 2003/04, while opening six new leisure shops and introducing an enhanced online booking engine. Although leisure was relatively disappointing, as in the States, corporate profit growth was strong.

Leisure and corporate growth is planned during 2005/06, along with ongoing revenue growth through the leisure online business.

QUARTERLY REPORTING AND FIRST QUARTER

Before outlining our results in the first quarter of 2005/06, I would like to talk briefly about our current reporting practices.

Three years ago, Flight Centre's Board voluntarily decided to report financial results for the first and third quarters of the fiscal year. Obviously this was in addition to releasing half and full year results to the market.

We will review this policy and will consider returning to conventional half yearly reporting in future.

This review has been prompted by general reporting trends and current market sentiment favouring a longer-term view of our performance.

While a final decision has not been made, a return to our traditional reporting system would also eliminate some of the seasonal and other one-off factors that can distort results in a quarterly period.

<u>First Quarter</u>

It is obviously very early days in 2005/06 but initial results are disappointing.

In the three months to September 30 2005, sales from our leisure and corporate network continued to grow.

Total transaction value increased 14.2% to just under $1.9 billion, including results from Friends Globe Travels, the company's acquisition in India.

Other first quarter results include:

- A pre tax profit of $23 million
- Income margin of 12.7%

After adjusting last year's results for IFRS, profit before tax was $29.1 million for the first quarter of 2004/05, 21% higher than this year's result.

Pressure on income margin and costs within the business continued to impact on profit.

Most geographic regions performed broadly in line with expectations, with strongest performances coming from South Africa and the UK leisure travel business.

In the Australian and New Zealand leisure business, our "front-end" shops again traded solidly. "Back-end" earnings have however been adversely affected by a decrease in over-ride payments, predominantly from a few of our key air contracts.

While our sales are growing, the rate of growth has not been high enough to achieve some of the contracted growth targets that we agreed to but indicatively may not reach.

To improve our performance in this area, we will focus on our TTV over the remainder of the year. In future, we clearly need to improve the quality of our air contract negotiations by ensuring we have more realistic over-ride targets.

In terms of costs, advertising spend has increased significantly. We have had some cost issues in the marketing area in Australia that are being addressed.

Increased advertising and wage costs during the first quarter reflect our commitment to growing our business by securing new customers and boosting selling staff numbers in our shops.

It is pleasing to also see that earnings from land-based sales have been relatively healthy.

Our ongoing policy is to minimise sales for air and land suppliers that do not adequately reward us for our sales volume for obvious reasons for shareholders and customers.

While the company has achieved some cost and structural benefits from Full Throttle, significant benefits from the program are yet to be banked.

Moving forward, we will not detail any benefits in dollar terms as we feel they can be misleading. Although bottom line benefits from Full Throttle should be significant, many factors could dilute our earnings, making it impossible to enunciate net gains.

OUTLOOK

The year ahead will continue to offer reasonable challenges – some within our control and some not.

To improve returns in 2005/06 and beyond, the company will focus on:

- Continued business expansion in corporate, wholesale and leisure travel
- Better retail and online product, informational and transactional capabilities

- Margin improvement through air and land contracting and preferred supplier strategies
- Cost improvements by reducing overheads, some aspects of marketing spend, structure and having a more effective procurement area
- Acquisitions – the company is still targeting a medium sized corporate business in the USA and will look at other niche opportunities as they arise

In terms of multi channel expansion, growth opportunities for our company this year and in the years ahead include:

- Further international development of the FCm Travel Solutions network
- Expansion of the Flight Centre leisure travel brand in our international markets
- Expansion of our niche leisure brands, Escape Travel, Travel Associates and Student Flights, in Australia and New Zealand
- Continued upstaffing in South Africa and the UK while maintaining our sales numbers in our other geographical areas in line with shop and business growth
- Continued expansion of our Infinity Holidays wholesale business

There are also growth opportunities globally in the leisure online market, but we predict that few if any web travel providers will make independent or significant profits online.

Our leisure online websites generate significant TTV, in addition to providing travellers with general product information 24 hours a day.

flightcentre.com.au, Australia's most popular travel agency site, continues to enjoy strong growth and we expect sales of $150-$200m in the next 12 months. It is a very important adjunct to our shops and telephone sales.

Sales through this channel make a valuable contribution to targeted over-rides. However, our profit comes predominantly from our leisure travel shops and corporate travel outlets and will continue to do so for the foreseeable future.

As you have heard, the company is currently tracking at close to 15% TTV growth, in line with its full year TTV growth target.

Earlier this year, we stated we would be disappointed if we could not achieve profit growth in line with TTV growth.

Currently, we are not achieving this target but it is early days in the financial year and we cannot provide further guidance at this time.

Our People

In conclusion, I would like to congratulate our people – from our senior management to our frontline people – for their efforts in a volatile trading environment during 2004/05. I would especially like to thank our people for their efforts in working with and through the many changes that have taken place over the past nine months in particular.

In this industry, there are plenty of challenges inside and outside our organisation.

It is our frontline corporate, wholesale and leisure areas that will continue to make the difference for us and I know our management team is totally committed to providing the environment and strategies that will drive future growth and success in all aspects of our business.

I would also like to thank our customers and, of course, our valued shareholders, for your ongoing support of our businesses.

ENDS