

# Chairman's Review by Bruce Brown



## Welcome to Flight Centre Limited's annual report for 2006/07.

### The 12 months to June 30 2007 will be remembered as an eventful but highly successful year for the company, with FLT delivering:

- Record financial results, including its first \$100million after tax profit
- Improved shareholder returns in the form of increased dividends
- Enhanced customer offerings through new marketing initiatives, shop design and a broader product range and;
- A stronger business base for the future through ongoing expansion, strategic acquisitions and continued investment in its people, systems and IT platform

These notable achievements did, of course, correspond with significant events relating to the company's ownership structure.

In February 2007, shareholders voted against a proposal that would have seen FLT return to private ownership under the control of a consortium that included FLT's founders and Pacific Equity Partners (PEP).

Following the privatisation's rejection, PEP returned with a proposal to create a leveraged joint venture. This proposal was based on the transfer of assets to a joint venture valued at \$1.6billion, a price that was ultimately deemed to be approximately \$400million less than fair value.

The ramifications of this higher valuation were that increased costs inherent to the transaction meant it was no longer economically viable – or in shareholders' best interests – to proceed.

Consequently, FLT's founders, who together held 58% of the company's shares, withdrew their support.

### **Financial performance**

In terms of the company's financial performance, FLT achieved:

- 26% pre tax profit growth to \$151.6million, excluding the \$22.4m abnormal gain on the sale of the company's Brisbane city headquarters
- 51% growth in after-tax profit to \$120.8million, including proceeds from the building sale
- 51% growth in earnings per share to \$1.28
- 14% growth in total transaction value to \$8.9billion and;
- 15% revenue growth to \$1.15billion

Income margin, revenue as a percentage of TTV, increased from 12.79% to 12.98%.

A strong second half was the key to FLT's achievements in 2006/07, after modest growth during the first half.

During the second half, FLT easily surpassed its results during the previous corresponding period by recording:

- 16% TTV growth
- 21% revenue growth
- 40% pre tax profit growth – a \$99million result for the six-month period
- 47% growth in after tax profit

At 30 June 2007, FLT's assets included \$636million in client and company cash and investments, compared to \$479million at the end of the 2005/06 financial year. Of this figure, company cash and company investments totalled \$180million, up from \$160million one year earlier.

After considering FLT's company cash position, its anticipated requirements for 2007/08 and its improved performance late in 2006/07, the directors declared a \$0.46 per share fully franked final dividend, payable on October 12 2007 to shareholders registered on September 21 2007. This final dividend followed a fully franked \$0.20 per share interim dividend paid in March 2007.

The company also made solid progress in addressing the six key issues that were identified as priorities at the start of 2006/07. Updates are included in the accompanying table.

With the progress made during 2006/07 and the strategies that are in place for 2007/08, FLT can look to the year ahead with considerable optimism.

Various challenges remain, particularly in the areas of margin improvement and cost reduction, but the business fundamentals are sound and management is focussed on achieving the desired results.

As announced previously, independent director Howard Stack and myself will resign our Board positions following November's Annual General Meeting and the appointment of replacement independent directors.

At this time, I would like to thank Howard for his efforts and oversight of the company over the past 12 years and wish him well in his future endeavours. In the past year in particular, Howard provided valuable and forward thinking contributions during what was a very challenging period.

I would also like to wish prospective independent directors Peter Morahan and Gary Smith well as they seek shareholder approval at the AGM.

In conclusion, I would like to congratulate FLT's people, from the retail travel agents and corporate account managers to the senior management team.

These people were integral to the many notable achievements that made 2006/07 a year to remember and can justifiably be proud of their contributions, both individually and collectively.

Thank you once again to you, the valued shareholders, for your ongoing support of the company.

# Chairman's Review by Bruce Brown continued

## Strategic Update

At the start of 2006/07, FLT targeted six areas to improve its performance and to generate improved returns for shareholders. Updates on the company's progress in addressing these areas are included in the table below.

AREA	2006/07 PROGRESS
<b>TTV Growth</b>	<ul style="list-style-type: none"><li>• 9% increase in business units and 10% increase in selling staff delivered 14% TTV growth</li><li>• 17 franchises opened in first year</li><li>• Acquired Nationwide Currency Services, 26% holding in Boston-based Garber Travel Services, wholesaler the Travel Spirit Group and Toni Brasch Event Management</li></ul>
<b>Gross Margins</b>	<ul style="list-style-type: none"><li>• Increased income margin during 2006/07 – still adversely affected by airlines' use of zero-margin surcharges</li></ul>
<b>Online and IT platform</b>	<ul style="list-style-type: none"><li>• Enhanced international (Trans Tasman) booking functionality on flightcentre.com.au</li><li>• flightcentre.com.au Australia's No. 1 travel agency site by visits for third consecutive year (Source: Hitwise)</li><li>• Overall retail technology platform enhanced</li></ul>
<b>People</b>	<ul style="list-style-type: none"><li>• Continued focus on development and attracting and retaining the right people, with reduced staff turnover</li><li>• Expansion in flexible workplace arrangements – increased from 6% of total roles to 12%.</li><li>• FLT runner-up (large company category) at Hewitt Associates' annual Best Employer award</li></ul>
<b>Costs</b>	<ul style="list-style-type: none"><li>• Overall expenses increased in line with TTV growth, although salaries and wages increased faster</li><li>• Rents under pressure in some monopoly shopping centres</li></ul>
<b>Customer Experience</b>	<ul style="list-style-type: none"><li>• Shop of the future design now in all countries for Flight Centre and Escape Travel brands</li><li>• New "Unbeatable" and "Perfect Holiday" marketing programs for Flight Centre and Escape Travel</li></ul>

