Managing Director's Address

Thanks Gary.

Good morning everyone.

Today, I will focus on FY21 – what we're seeing so far and what we expect to see over the remainder of the year, based on our expectation that travel restrictions will gradually ease.

While this is by no means guaranteed, the good news is that where domestic and international border restrictions are being eased, we are generally seeing a significant uplift in demand fairly quickly, which is something you will hear more about shortly.

On another positive note, you will also hear about some of our businesses – including China – returning to modest profitability in October.

Cash, Costs and Liquidity

Our COVID-19 response to date has focused on factors within our control, specifically:

- Preserving cash
- Cutting costs, while continuing to invest in critical functions and future growth drivers
- Maintaining our non-financial assets; and
- Making sure we have liquidity to last for some years with lower than normal revenue

We feel this longer term approach to liquidity is prudent, given the ongoing uncertainty around travel restrictions and possible actions that governments may take in the future when subsequent outbreaks occur and ahead of any effective vaccine.

As illustrated on this slide, we had about $1billion in liquidity at the end of the first quarter. This takes into account our $1.7billion total cash balance, minus $102million in working capital adjustments and $560million in client creditors.

We continue to explore options to extend and increase flexibility in regards to liquidity and are in regular dialogue with our lenders, who remain positive on our long-term strategic positioning and continue to be supportive.

We are also working to reduce cash outflows and are having some early success.

As you can see on this next slide, our outflow In September was down to $40million from $43million in July, including government subsidies that have been made available globally.

Last month, we announced additional changes, which should lead to further improvement.

These changes, which have included some additional shop closures, should deliver monthly savings in the order of $9million, of which:

- Between $4million and $5million per month will be re-invested in initiatives designed to enhance our position as the market returns; and
- Between $1million and $2million per month will be used to offset property expenses that we will incur as rent-free periods negotiated late in FY20 expire

In addition to the $9million monthly saving, we expect monthly cap-ex to reduce from $4million to $2million as key projects are deployed during the coming months.

Together, these cost-saving initiatives and re-investment plans should, therefore, reduce our monthly cash burn by $4million, as you can see on the bottom of this slide.

Above that, we have provided a breakdown of the one-off, COVID-related costs we have incurred to date. About $165million in one-off costs related to the initial plan, which was unveiled in April, with $60million related to the recent changes.

In our response, we have worked to ensure that we have not jeopardised either our ability to recover or our ability to capitalise on the inevitable rebound in demand in the future.

We have continued to invest in key leisure and corporate systems and projects and we have been careful to ensure that our people remain highly accessible to their customers.

Even after the recent leisure network changes in Australia, 95% of the 1.4million customers who transacted with Flight Centre brand during the past two years will live within five kilometres of a shop that is currently open.

In corporate travel, we have maintained a monthly cost base in the order of $25million, which has allowed us to continue to invest in the key growth drivers that I will outline shortly.

<u>FY21 Trading</u>

In our annual result announcement a couple of months ago, we spoke of seeing green shoots in revenue in June-July, after the almost complete shutdown of travel in April-May.

This trend continued through the FY21 first quarter, with sales generally increasing week-on-week, as restrictions gradually eased and demand for travel gradually started to recover.

Revenue for September was $25million, about 12% of its normal level, or $38million with government subsidies included.

On this slide, you can see the recovery trajectory that our leisure and corporate businesses throughout the world achieved in September, compared to the prior period in FY20.

Recovery in some locations that would normally be material contributors to group earnings, specifically Australia, the UK and the USA, has been hampered by ongoing curbs on travel.

The corporate business overall was tracking at 18% of normal revenue for the month, with the global leisure business at 8%.

Several businesses were tracking above 20% in September, which meant they were close to breakeven given that our fixed cost base had decreased to circa 30% of its prior year level.

Preliminary figures for October are now available and indicate we are again profitable in both China and the United Arab Emirates and in Corporate Traveller in South Africa.

South Africa is an interesting case study.

After being in full lockdown for an extended period, the business overall is now close to breakeven just 11 weeks after domestic travel restrictions were lifted in mid-August.

This highlights the positive impacts border openings can have and points to the possibility of a fairly rapid and material rebound in other "restricted" locations like Australia once governments accept that we need to learn to live with the virus and allow travellers to release their pent-up demand for holidays.

The recovery in China, which has also been driven by domestic travel, is another very positive sign, given it was the first business to be impacted by the pandemic.

Elsewhere in the world, our corporate business in France has, to date, been a strong performer, although its short-term recovery will now be impacted by new restrictions that are being applied in parts of Europe and in the UK.

We are, however, also seeing relaxations in some locations, including Australia, with Western Australia, Tasmania and Queensland all recently loosening restrictions.

In addition, the New South Wales government yesterday announced plans to reopen the border with Victoria on November 23, which will be significant given that Sydney-Melbourne is normally one of the world's busiest flight paths and a key corporate travel route.

Some heavily affected travel sectors are also starting to show modest signs of recovery.

For example, America's Centers for Disease Control and Prevention (CDC) last week moved to relax "no sail" restrictions that have applied to cruise lines operating in the USA since March. This relaxation will – in time – effectively allow cruise companies that meet strict health and safety protocols on crew-only test sailings to then resume passenger services.

Prior to yesterday's election, broader customer sentiment and activity in the USA also seems to be improving, with the TSA (Transportation Security Administration) screening more than 1million passengers on October 19 – the biggest single day since March.

<u>Guidance and Expectations</u>

The lack of visibility around government strategies and timeframes for restrictions to be lifted means we are not in a position to provide FY21 guidance at this stage.

Given that heavier restrictions apply to international travel right now, short-term revenue generation will be weighted towards domestic and regional travel, which is a key driver for our corporate businesses globally and for some leisure businesses like flightcentre.com.au.

Prior to the pandemic, domestic and regional travel accounted for the majority of corporate TTV in Australia, the United States, Canada, Asia, India, New Zealand, Europe, South Africa and the United Arab Emirates, plus 25-30% of leisure TTV globally.

Given the global corporate business's heavy domestic weighting, low cost base and strong sales trajectory and account pipeline, we currently expect it to return to profit on a month-to-month basis before the leisure business and possibly late in FY21. The global leisure business, which has a higher cost base and a heavier international travel weighting, is expected to follow in FY22, although recovery in both sectors will largely be in the various governments' hands.

While demand for international travel is unlikely to fully rebound for several years, we see opportunities this year and during the recovery phase:

- As domestic borders reopen in a more meaningful way in Australia and elsewhere
- As bilateral agreements are established between countries, probably across the Tasman and in parts of Asia and Europe. These kinds of agreements, which are also being proposed for key international routes like New York-London, will potentially deliver a very significant stimulus; and
- As businesses and governments work together to develop re-opening plans that address any ongoing health concerns and incorporate potential game-changing developments like rapid antigen testing and effective vaccines

In Australia, we are generally pleased with recent developments, including yesterday's New South Wales-Victoria announcement and National Cabinet's commitment to reopen borders (with the possible exception of WA) by Christmas.

We do, however, question the need to delay reopenings, given the very low level of community transmission throughout Australia and the devastating impacts closures are having on society, particularly families, and the broader economy.

There also appears to be decision-making paralysis in Queensland, with the state government adopting a set position that it will only consider border reopenings towards the end of each month, rather than simply moving as quickly as possible, which appears the more logical position to adopt on an issue as important as this.

We believe there is significant pent-up demand for travel globally.

As you can see on this slide, recent surveys of our Australian leisure customers show that:

- Almost 60% are considering booking an international holiday in the 12 months after restrictions are lifted
- Almost 80% are considering booking an interstate or intrastate holiday; and
- Almost 20% are considering booking a domestic or international cruise

By contrast, only 3.5% say they will not be travelling.

As you can also see on this next slide, almost half the customers who plan to travel domestically favour a Queensland holiday, which again highlights the widespread benefits safe and sensible border reopenings will deliver.

While the recovery timeframe is unclear, I am optimistic that travel's medium term outlook is fairly bright, particularly if there's an effective vaccine late this calendar year or early in 2021.

Corporate Strategic Update

In corporate travel, and as you can see on this next slide, our current focus is on "growing to win" – organically increasing our market-share by retaining customers and winning new accounts within our FCM and Corporate Traveller brands.

We are successfully doing this now, with FCM alone securing new accounts with annualised pre-COVID travel spends of more than $US500million during the first four months of FY21. To date, 75% of this new business has been won in the Americas, Europe and the UK.

This success in winning accounts globally – across both key brands and throughout the economic cycle – reflects our compelling customer offering, which is based on:

- Our customer-centric DNA, which provides customers with the right flexibility and agility to support their businesses
- Our innovative and disruptive technology
- Our state-of-the-art data and reporting, powering new COVID dashboards and safety products that are becoming even more critical from a duty of care perspective; and
- Our people and small team-based service model

Other important factors include our financial stability, at a time when some customers are concerned about their current travel manager's ability to survive, and our "Truly Global" presence, which is built on company-owned businesses in 23 countries plus a partner network in 70-80 other countries. As you can see here on this next slide, we have company-owned businesses in 10 of the world's top-16 business travel markets.

Throughout the pandemic, we have continued to invest in critical activity, including product research and development, given that many of our customers have continued to travel and many other companies have engaged with us to reassess their programs or options.

We have also continued to invest in implementation, at a time when our competitors have pulled back or hibernated to save money, and in account management to really understand how our customers' needs hierarchies have changed during the pandemic.

Recently, we acquired WhereTo to enhance our already strong tech suite by delivering game changing technology, particularly for the SME-focussed Corporate Traveller brand.

We believe the SME platform we are launching, which combines our proprietary technology with WhereTo, will give our customers the industry's best digital platform experience and we will couple it with our people offering, which is what customers love in this market segment.

Our investments in corporate during this period are highlighted on this next slide.

Leisure Strategic Update

In leisure, we have retained a highly accessible network with capacity to grow as travel recovers and with the right brands and models to gain share, even in a smaller market.

As you have heard and as illustrated on this next slide, we have fast-tracked our transformation efforts and moved from Speed 1 to Speed 2.

Our over-arching priorities are:

1. Rejuvenating and modernising Flight Centre brand and growing online sales
2. Further e-commerce growth through the Jetmax and StudentUniverse brands
3. Developing a leading and tailored offering for independent travel entrepreneurs. We are already experiencing strong enquiry from agents who are interested in becoming part of these independent networks; and

4. Growth in the premium/luxury sector through Travel Associates in Australia and Laurier du Vallon (LDV) in Canada

As you can see on this slide, Flight Centre brand is central to our plans and will have a smaller but stronger and more productive shop footprint and an overall offering that appeals to a younger audience.

From a product perspective, we are actively promoting a suite of irresistible deals, while continuing to offer value airfares, as we have done for almost 40 years.

Alongside our shops, we've started to scale up our call centre model using the successful template developed by the Ignite business, which we took 100% ownership of during FY20. Ignite is also close to breakeven now, after pivoting during the pandemic to focus on closer-to-home domestic deals, accommodation specials and FY22 cruise product.

We also continue to invest in the online channel and are currently expanding our flightcentre.com offering beyond flights to packages, ancillaries and membership, as you can see on this slide.

Before borders closed, flightcentre.com.au was growing strongly, with TTV increasing at greater than 40%. When borders momentarily reopened in Australia early in FY21, we saw immediate recovery in this channel – which is heavily weighted towards domestic airfares – and its sales should continue to grow as a percentage of our overall volume.

Moving on to the next slide, our other digital players, Jetmax and StudentUniverse, were also doing well pre-COVID and helped the company record almost $1.2billion in online leisure TTV during FY20. US-based StudentUniverse is recovering and, with STA Travel unfortunately encountering financial difficulty, is poised to become the major global student travel brand.

I mentioned earlier our B2B and premium leisure offerings and we have included a couple of slides dedicated to them in this presentation. I won't talk to them in detail today but we will leave them on screen for the remainder of this address.

In addition to our leisure brands, we also operate a small network of at-destination businesses, as well as our global product business, which now services a growing network of external agents and agencies.

The pandemic has reduced our near-term aspirations to expand in touring, hotels or destination management, but these businesses' external sales will aid our recovery.

During hibernation, we've fast-tracked some of our key, leisure technical and digital transformation projects.

This week, we deployed our new Helio product platform in the UK and South Africa, about nine months ahead of schedule and ahead of full global roll-out over the next few months.

Our consultants globally will use Helio to search, book, quote, deposit and pay for leisure products, including airfares, accommodation, car hire, tours and transfers, and it will also be used to sell our expertly produced irresistible deals online.

The new platform will replace six legacy systems and will link to our Trips App and our finance systems, thereby enhancing consultant productivity and lowering overall costs.

<u>Supplier Relations</u>

Throughout this crisis, we have maintained strong supplier relationships globally and have engaged regularly with our key partners to understand their needs and to outline our recovery plans and strategies.

Given the current uncertainty, our contracts have generally been extended or renewed with similar outcomes as previously. We have recently agreed new contracts with a significant number of airlines, including Virgin Australia, and have extended with Qantas with a view to agreeing a longer term deal.

During the recovery phase, we look forward to working closely with all partners who value our diverse distribution network, which of course spans the globe, the leisure and corporate sectors and the key segments within both of these sectors. Now more than ever, suppliers need volume and we will have the capacity, distribution and marketing expertise to deliver it.

We have also engaged regularly with suppliers to enhance the refund process, given that our customers have, in some cases, been forced to wait more than six months for their funds to be returned to us from airlines and other companies. In Australia, we have now requested more than 100,000 customer refunds from Qantas, alone our largest and most important airline partner globally.

While we are still encountering delays, the situation is improving

Conclusion

Pre-COVID, we were one of the largest and most diverse travel companies in the world.

We are determined to cement and enhance this position and are well placed to do this as:

- Travel comes back, which it is already slowly starting to do; and
- As governments throughout the world ease the current restrictions that are having such devastating impacts on businesses and on society in general.

While we have been impacted in the short-term, we have retained our strong foundations for the future including our non-financial assets and our brand and geographic diversity. At the same time, we have substantially lowered costs to a sustainable level and fast-tracked key projects and initiatives like leisure transformation in the current depressed trading climate.

We also have a dynamic management team, with vast experience across all economic cycles, overseeing our strategic response.

We see FY21 as the year when recovery really starts in earnest, given our expectations that government restrictions generally are going to start coming off as we learn to live with the virus and with the possibility of a vaccine as well.

I will now hand over to Gary.

This announcement has been authorised by the board of Flight Centre Travel Group Limited.