



28 July 2017

Update on FY17 results

Webjet Limited (ASX Code: WEB) wishes to advise the market of a disagreement with its auditor, BDO Audit (SA) Pty Ltd (**BDO**), on a technical accounting matter relating to its financial statements for the year ending 30 June 2017.

The issue relates to the treatment of transactions associated with the Thomas Cook agreement which the Company entered in August 2016. BDO has indicated to the Company, that despite its review and subsequent sign-off of the Company's accounts for the six months ending 31 December 2016, it no longer agrees with the accounting treatment adopted by the Company in respect of recognition of the agreement as an intangible asset and of recognition of the fixed management fee payable to Webjet under the agreement as income.

The position adopted by BDO is contrary to the advice obtained by Webjet from two Big 4 accounting firms on the above issues. Webjet has given BDO access to its advice on the accounting issues. Despite doing so, BDO has confirmed the change in its view.

Consistent with its external advice, the Webjet Board intends to apply the same accounting treatment in respect of the Thomas Cook agreement for FY2017 as it used in its financial statements for the six months ending 31 December 2016 (which were signed off by BDO in February 2017). As a result, Webjet expects that the audit report to be issued by BDO in respect of Webjet's financial statements for the year ended 30 June 2017 will be qualified. The Company is not aware of any other issues that have been identified to date.

Webjet notes that this technical accounting matter does not in any way change the cash flows or economics of the Thomas Cook arrangements, and importantly, this highly strategic partnership has commenced successfully and is expected to deliver significant benefits to both parties. Webjet remains confident in its strategy to become a global leader in what is a significant and attractive B2B market opportunity. Further initiatives are expected to be announced in due course.

Webjet's businesses continue to perform strongly and it expects to report EBITDA consistent with its earnings guidance of \$80 million, of which \$61 million is expected to come from its continuing businesses, after expensing costs associated with the launch of FIT Ruums. Guidance provided in February 2017 was based on the accounting treatment adopted in the preparation of the 1H17 accounts, which was reviewed by BDO. Webjet is finalising its results for FY2017 and is due to report its results on Thursday, 31 August 2017.

Further background and details of the technical accounting matter are set-out below.

Background

In August 2016, Webjet entered into an agreement with Thomas Cook pursuant to which it was appointed to be the preferred supplier for the majority of the volume of Thomas Cook's complementary hotel business (Contract). Under the terms of the Contract, Webjet paid £21M to Thomas Cook for the right to enter into the supply agreement, the transfer of around 3,000 hotel contracts and for the implementation costs of the deal. During the initial transitional period, Thomas Cook agreed to pay Webjet a fixed management fee (in instalments) in order to retain access to the hotel contracts. Thereafter, Thomas Cook will pay a volume based fee for ongoing access to the hotel contracts. Webjet's current expectation is that the revenue earned under the Contract, once it becomes a volume based service fee arrangement, will be greater than the fixed management fee being paid during the initial transitional period.

The accounting treatment applied by Webjet to the Contract was to record an intangible asset, to be amortised over a period of 10 years, and then to recognise the fixed management fee as revenue on a monthly straight-line basis over the transitional period. The volume based fee, which applies after the initial transitional period, will be treated as revenue on an accrual basis.

In December 2016, Thomas Cook paid the first instalment of the management fee to Webjet. Consistent with the accounting treatment above, Webjet included the amount of \$5.3 million AUD as revenue in its financial statements for the half year ended 31 December 2016. During this period, Webjet also recorded expenses reflecting the amortisation of the intangible asset as well as interest.

In completing its half year review, BDO reviewed the Thomas Cook arrangements and was provided with full access to senior management and the written advice obtained by Webjet from one of the Big 4 accounting firm. BDO signed off its Independent Auditor's Review Report in respect of Webjet's 31 December 2016 financial statements (as lodged with ASX on 22 February 2017).

Subsequently, BDO advised Webjet that it may no longer agree with Webjet's accounting treatment of the Contract (i.e. it being recorded as an intangible asset) and Webjet's recognition of the fixed management fee as income. On 27 July 2017, BDO advised the Company of its final decision in which it confirmed that it had indeed changed its mind concerning the accounting treatment of the Thomas Cook Contract and the transactions under that Contract.

While the difference of opinion on the application of the relevant accounting standards to the payments made and received by Webjet under the Contract is regrettable, the reality is that the differences in the views of the respective accounting experts relate to technical matters only and do not affect the quantum or timing of the management fee payments to be made by Thomas Cook to Webjet under the Contract.

For completeness, if Webjet were to adopt the accounting treatment in FY17 proposed by BDO, the \$11.0 million AUD revenue recognised by Webjet from the Thomas Cook Contract would have to be reversed, and incorporating FX impact, the adjustment to EBITDA would be a reduction of \$11.5 million AUD. Furthermore, the \$32.7m carrying value of the intangible asset associated with the Thomas Cook Contract would be derecognised.

For further information in respect of this announcement, please contact John Guscic, Managing Director on +61 3 9828 9748 or by email at john.guscic@webjet.com.au; or Carolyn Mole, Investor Relations on +61 3 9828 9754 or by email: carolyn.mole@webjet.com.au.



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