



STATEMENT TO AUSTRALIAN SECURITIES EXCHANGE – February 26, 2013

FLIGHT CENTRE LIMITED ANNOUNCES RECORD FIRST HALF RESULTS

Result summary

	31 Dec 2012	31 Dec 2011	Growth
Sales & Margin			
Total Transaction Value (TTV)	\$ 6.6b	\$ 6.2b	7%
Gross Profit	\$915.4m	\$ 857.5m	7%
Income Margin	13.9%	13.9%	-
Net Margin	2%	1.9%	1%
Profit			
EBITDA	\$148.9m	\$ 137.5m	8%
EBIT	\$124.8m	\$ 112.7m	11%
Profit Before Tax (PBT)	\$129.5m	\$ 119.7m	8%
Net Profit After Tax (NPAT)	\$ 91.8m	\$ 81.6m	13%
Dividends			
Interim Dividend	46.0c	41.0c	12%

Highlights

Record results: New first half profit and sales milestones established – record EBIT in Australia, UK, Greater China and Singapore

Growing globally: Ongoing sales network growth delivered 7% TTV growth

Balance sheet strength: Lower debt and higher cash balance – \$273million positive net debt position at December 31

Increased shareholder returns: First half EPS up 12.4% to record 91.7cents and interim dividend up 12%. FLT an S&P/ASX 100 company with share price at all-time high in Feb 13

Outlook – 2012/13: Marginally ahead of targeted full year growth rate after eight months. With largest profit months to come, continuing to target \$305million-\$315million PBT

Result overview

FLIGHT Centre Limited (FLT) has continued its run of record results, with new sales and profit milestones established during the first half of 2012/13.

TTV and gross profit both increased 7% to \$6.6billion and \$915.4million respectively during the six months to December 31, despite mixed consumer and business confidence globally.

Profit growth exceeded sales growth, with the company recording:

- A 10.8% EBIT increase to \$124.8million
- An 8% PBT increase to \$129.5million; and
- A 13% NPAT increase to \$91.8million

If maintained for the full year, FLT's first half PBT growth rate would deliver a \$314million result, near the top of the company's targeted range (\$305million-\$315million) for 2012/13.

Income margin, gross profit as a percentage of TTV, was in line with 2011/12 at 13.9%, while net margin increased to 2%.

FLT's solid first half growth highlights its diversity and the strength and resilience of the company's business model.

Nine of FLT's 10 countries and regions were profitable, with four contributing record EBIT.

Leisure and corporate travel sales both increased, despite volatile conditions in some countries.

First half results were also affected by a \$2.1million decline in interest income, a reflection of reduced official cash rates in Australia, and legal costs related to the ACCC's competition law test case against FLT. The case was heard in October 2012 and an outcome is expected this calendar year.

FLT continued to invest in key projects and in its sales force, with shop and sales staff numbers both increasing about 5% during the past year. FLT is on track to open its 2500th outlet during the fourth quarter.

Cash, cash flow and dividends

FLT's global cash and investment portfolio reached \$828.5million at December 31.

Within this portfolio, company cash increased slightly year-on-year to \$319.5million, a strong result given that general funds were used to repay a \$USD60million loan in December 2012.

Repayment of the US loan, which related to the 2008 Liberty Travel acquisition, saw debt decrease to \$46.6million, which gave FLT a \$272.9million positive net debt position.

A \$110.8million operating cash outflow was recorded during the company's seasonally weaker first half, as FLT paid suppliers for peak season travel that was booked during the second half of 2011/12.

This movement was in line with expectations and lower than average first half outflows (\$120million) since FLT's direct contracting wholesale model was introduced in 2008.

A large second half inflow is expected and is already being experienced, as client cash again accumulates during the year's peak booking periods.

FLT's directors today declared a fully franked \$0.46 per share interim dividend.

This dividend is 12.2% higher than the 2011/12 interim dividend (\$0.41 per share) and will be paid on April 19, 2013 to shareholders on FLT's register on March 28, 2013.

More than \$46million – 50.2% of NPAT – will be returned to shareholders via this interim dividend, taking total dividend returns to almost \$900million since FLT listed in late 1995.

Operational review

FLT's achievements in its key business segments are outlined below:

- In Australia, TTV increased 9% and solid EBIT growth was recorded in a market that some local travel companies have described as "flat"
- In the UK, EBIT increased 17% to \$12.3million, with the business consolidating its position as FLT's main profit driver outside Australia
- In the USA, first half losses increased to \$5.7million (EBIT) but the business regained ground in January and was tracking close to the prior year after seven months; and
- In the rest of the world, EBIT more than doubled in both New Zealand and Singapore, Greater China recorded strong growth and South Africa, Dubai and Canada were profitable but down compared to the prior year. India was ahead of expectations and profitable, reversing the second half trend of last year

Managing director Graham Turner said: "Australia and the UK are now entrenched as the company's largest and second largest profit generators and again delivered record EBIT in challenging trading conditions to underpin FLT's overall growth.

"Our Singapore and Greater China businesses also contributed record first half EBIT, which helped FLT comfortably surpass the profit milestone that was established last year.

"In addition, a first half sales record was established. While some leisure businesses grew strongly, including Australia's niche brands, corporate growth was generally stronger."

FLT's corporate travel presence has expanded rapidly in recent years as part of a global strategy to accelerate growth in the sector.

As a result, corporate turnover has doubled over the past three years.

"Globally, the corporate businesses turned over more than \$2billion, with the Australian business contributing more than \$1billion for the first time during a first half," Mr Turner said.

"These figures, which do not include sales generated by FCm's licensee network in 70 other countries, highlight the company's emergence as Australia's largest corporate travel manager and one of the world's leading players in this sector."

In addition to generating record in-store sales, FLT continued to grow online.

flightcentre.com.au recorded 23% first half sales growth and is on track to deliver EBIT in the order of \$5million this year.

The website now offers a full range of FLT's published domestic and international fares and has been upgraded as part of the plan to develop a unique blended travel model.

When fully implemented, the blended model will allow customers to interact with FLT and its consultants in any sales channel at any time with the full product range available worldwide.

Implementation will take place in three phases, with Phase Two now virtually complete for Flight Centre brand in Australia.

Phase One saw FLT blend its offerings in the pre and post booking stages by allowing customers to enquire, pay and view travel itineraries online, rather than requiring them to interact in-store or via the phone

In Phase Two, FLT made more product and services available online, in addition to giving customers broader access to its global shop network.

International flights were added to flightcentre.com.au, bolstering an offering that was previously restricted to domestic and Trans Tasman fares, along with a comprehensive global hotel offering.

To give online customers the benefits of access to FLT's global network of "human search engines", consultant Chat has been piloted on some sites and a Consultant Select model has been launched in Australia.

Under the Select model, web customers can select a human contact for advice and/or help if something goes wrong.

A Perfect Match system that builds on this Consultant Select model by referring online customers to consultants with recent first-hand experience of the customer's chosen destination has also been trialled with promising results.

In Phase Three, FLT will unveil a fully integrated offering that allows customers to switch seamlessly between sales channels.

"Today, the power is with customers and retailers need to be able to meet their needs across all sales channels, effectively allowing them to interact and transact when and how they want," Mr Turner said.

"The enhancements that are currently taking place will deliver online solutions that take away some of the pain points that customers experience when booking travel.

"Ultimately, a customer will be able to start a transaction in store and complete the booking at home later that evening, perhaps after discussing the options with families and friends.

"At all times, help will be at hand in the form of an expert travel agent.

"This offering will give travellers a next generation booking option that builds on the services bricks and mortar and online travel agents have traditionally provided."

Elsewhere in the business, the Pedal Group cycle joint venture generated \$19.4million in sales, a 27.4% increase, and posted its inaugural PBT (\$120,000). The business, which includes wholesaler Advance Traders Australia (ATA) and retailer 99 Bikes, generated \$620,000 in EBIT.

The 99 Bikes shop in Sydney, which opened early in 2011/12, was profitable and the two Melbourne shops, which also opened during last year's first half, approached break even.

Further modest expansion is planned, with the retailer looking for Sydney, Melbourne and south-east Queensland sites and ATA set to add accessories to its wholesale cycle range. ATA currently distributes the Merida, Lapierre, Norco, Centurion and DK brands in Australia.

Other first half achievements included:

- FLT's addition to the MSCI and S&P/ASX 100 indices, following strong share price growth which saw the company's shares reach record highs this month
- Expansion of FLT's board, with John Eales appointed in September as a non-executive director
- Further success in industry awards, highlighted by FLT winning retail, wholesale and corporate titles at Australia's National Travel Industry Awards and FCM being judged the world's best travel management company for the second successive year

- Enhanced FCm customer offerings, which will see FCm Locate, a new customer tracking tool, and FCm Mobile launched during the second half; and
- Solid leisure sales growth in Asia and the Middle East, with the region's TTV doubling from a small base. In addition, the first Flight Centre shop is about to open in Dubai

Strategic update

FLT has initiated a five-year plan that will serve as its strategic blueprint through to 2017.

The strategies that are in place focus on:

- 1) Improving retail efficiency through the Travel Shopping of the Future program and other key initiatives
- 2) The company's area structure – thinking small to grow big
- 3) Accelerating corporate travel growth
- 4) Developing unique product for customers – examples include myTime, Student Flights' Black Market Fares and manufactured round-the-world and multi-stop fares
- 5) Enquiry management
- 6) The customer; and
- 7) FLT's emerging businesses

The Travel Shopping of the Future Program is at the heart of FLT's retail transformation efforts and is aligned with the creation of a unique blended travel model.

The program is built around five key objectives that focus on increasing the number of customer files each consultant closes, the dollar value per file and land sales by:

1. Providing an exciting, inspiring and engaging in-store customer experience, making FLT's next generation shops locations that meld the physical and digital worlds
2. Providing a work environment that enhances and emphasises the value agents add
3. Reducing the process time it takes consultants to complete in-store transactions
4. Creating an experiential online/digital experience that can seamlessly integrate into the shop environment; and
5. Understanding, unlocking and mitigating barriers to buying the whole travel product from FLT

Initiatives that are expected to be delivered this year included enhanced, content-rich quotes and itineraries built out of the company's new product database.

In addition to incorporating key digital features into the Travel Shopping of the Future program, FLT is proactively integrating new technology to expand its business.

For example:

- Customer and consultant iPads have been incorporated into some of FLT's hyperstores, including the new US store in Madison Avenue
- New mobile sites have been launched for Flight Centre and quickbeds, as part of FLT's commitment to showcasing its services and facilities in ways that appeal to today's customers
- Customer databases have been expanded, which has allowed FLT's brands to communicate digitally with millions of existing and potential clients
- A stronger social media presence has been created, with experts in place globally to communicate with customers and monitor social channels and business mentions around-the-clock; and
- Graham "Skroo" Turner has a presence on Twitter, Facebook, Google Plus and LinkedIn and now produces a regular blog (www.skrooturner.com)

In addition, FCm this month announced plans to introduce FCm Mobile, an integrated mobile phone solution for customers.

When introduced later this year, FCm Mobile will give travellers access to itineraries, enable them to receive flight status notifications and check-in for flights, in addition to providing travel information such as airport guides, currency conversion and weather forecasts.

The mobile app will be fully integrated within FCm's suite of global technology tools and will allow FCm's travel teams to stay in touch with clients while they are on the move.

Outlook - 2012/13

After tracking at the top end of its guidance range at the end of the first half, FLT recorded strong January trading results.

As a result, the company expects PBT for the eight months to February 28 to be in the order of 10% up on the corresponding period last year.

With its key trading months to come, FLT will continue to target a PBT between \$305million and \$315million for the full year.

"While FLT is currently ahead of its full year growth target, maintaining 10% PBT growth will become more challenging as the year progresses and as the company tracks against its largest profit months," Mr Turner said.

"FLT is, however, well placed to build on the foundations that are in place.

"The company has:

- A strong balance sheet that allows it to capitalise on opportunities when they arise

- A stable of established leisure and corporate travel brands – unlike most other travel groups globally, FLT does not rely on one sector
- A blended offering that will distinguish FLT from Online Travel Agents by giving leisure travellers a next generation solution that combines key features of the on and offline models; and
- Strategies in place to grow earnings for the benefit of our key stakeholders.”

FLT sees growth opportunities in all markets, but expects Australia, the UK and the USA to remain its key growth drivers for the foreseeable future.

The Australian business has started the year solidly, with corporate sales increasing and leisure customers continuing to take advantage of cheap airfares. Research undertaken by FLT during the first half showed that the cheapest advertised fares to 10 international holiday hotspots had fallen by more than 20% on average during the past five years.

Flight Centre brand will continue to grow, with about 20 new sales teams expected to be in place by June 30 as the company bolsters its presence in specialist areas.

The new teams will predominantly focus on first and business class travel, round-the-world flights, small corporate accounts (Flight Centre Business Travel), group travel and online.

In corporate travel, priorities include technological enhancements to drive productivity and enhance the customer experience.

Tools that are on the way include the mobile platform and traveller tracking tools outlined previously, enhanced reporting and a single sign-on customer portal that features a one-stop travel experience and content tailored to the customer’s needs.

In the UK, a five-year plan is underway to double TTV by June 30 2017. Key strategies focus on sales network growth, product expansion, productivity and leadership development.

Second half priorities are to offset the effects of corporate client down-trading by winning new accounts and to continue building the operational and technological platforms required to fast-track growth through to 2017.

In leisure travel, FLT will continue its successful strategy of opening larger hyperstores and flagship outlets in key locations in London and other cities.

In the USA, results are expected to follow a similar pattern to last year, with second half profits targeted to exceed first half losses. The company’s full year target is EBIT between \$10million and \$15million, compared to a \$9.9million result last year.

The business was adversely affected by Hurricane Sandy during the seasonally weaker first half, with most Liberty leisure shops temporarily closed in the storm's aftermath. This was followed by sluggish demand in the ensuing weeks in hardest hit areas.

Signs of improvement were evident in January, as the US business recorded a solid profit.

The New York City Travel Centre, FLT's first US hyperstore, traded well after opening in October. This has prompted US management to fast-track plans for a Boston hyperstore and to search for a suitable Chicago site.

The new hyperstore in Boston's Washington Street is currently under construction and is expected to open in the first half of next year, with up to 11 leisure and corporate teams.

The US corporate business, which is now FLT's second largest corporate travel operation globally by sales, is also poised for second half growth as it expands its footprint to 15 cities.

Corporate Traveller has opened in Philadelphia and Houston in the past three months and expansion into Denver and San Diego has been scheduled for the fourth quarter.

The company has earmarked 10 additional cities for possible expansion in the medium term and sees the large but fragmented US corporate market as a major growth opportunity.

In terms of capital management, FLT will consider retiring about \$30million in overdrafts and loans (related to the Asia and Middle East corporate businesses) during the second half to lower overall interest expense, as announced previously.

FLT will also consider strategic acquisition opportunities and, from time to time, may use general funds to fund small acquisitions. The company's major focus will, however, continue to be on organic growth.

Subject to the business's needs, FLT's directors intend to maintain the current dividend policy of returning 50-60% of NPAT to shareholders.

ENDS Media and investor enquiries to Haydn Long 0418 750454

FLT's conference call for analysts and investors will be held at 8.15am (QLD time) today. Phone: + 61 2 8314 8370 or 1800 123 296. Passcode: 98259845