



STATEMENT TO AUSTRALIAN SECURITIES EXCHANGE – February 21, 2011

FLIGHT CENTRE LIMITED RELEASES HALF YEAR ACCOUNTS

Result summary

	Dec 2010	Dec 2009	Growth
Total transaction value (TTV)	\$5.7b	\$5.1b*	12%
Gross profit	\$791.6m	\$722.8m	10%
Income margin (gross profit as a percentage of TTV)	14.0%	14.3%	
EBITDA	\$121.3m	\$100.5m	21%
EBIT	\$97.5m	\$73.9m	32%
Pre-tax profit (actual)	\$101.1m	\$73.6m	37%
Net profit after tax (NPAT)	\$70.5m	\$51.1m	38%
Interim Dividend	36.0c	26.0c	38%

*FLT's 2009/10 TTV has been restated

Highlights

- Record profit: First half PBT exceeded \$100m for the first time. PBT and NPAT up 11% and 15% respectively on previous 1H records
- Sales growth: 12% increase in TTV to \$5.7billion globally. Stronger growth in Australia – up 14% – and in most countries' home currencies
- Cash generation: \$796m global cash and investment portfolio at December 31. Positive net debt position of \$84m
- Improved shareholder returns: Record first half EPS and \$36m to be returned to shareholders via fully franked \$0.36 per share interim dividend
- Global diversity: 36 brands in 11 countries, plus FCm corporate travel presence in 62 other countries through licensing arrangements
- Outlook unchanged: Continuing to target \$220m-\$240m pre-tax profit, excluding any major abnormal items

Result overview

FLIGHT Centre Limited (FLT) today announced record first half profit results.

Profit before tax (PBT) increased 37% to \$101.1m, while net profit after tax (NPAT) increased 38% to \$70.5m during the six months to December 31, 2010.

Both results easily surpassed FLT's previous first half records, with PBT and NPAT topping the highs achieved during the corresponding period of 2007/08 by 11% and 15% respectively.

First half earnings per share reached a record 70.6cents, up from 51.3cents.

Healthy sales growth in most markets led to 12% growth in global TTV to \$5.7b.

Stronger TTV increases were recorded in Australia (up 14%) and most other countries, but the company's overall growth rate was adversely affected by:

- Translation of overseas results into the stronger Australian dollar. For example, United Kingdom TTV increased 23% in pounds but only 8% when translated into Australian dollars; and
- A 19% decline in United States TTV during the seasonally slower first half

Income margin (gross profit as a percentage of TTV) was 14.0%.

FLT continued to expand its sales force, with selling staff numbers increasing 13% to 10,702 (excluding India, which was re-consolidated late in 2009/10). Global business numbers increased 10% year-on-year or 6% excluding India.

Balance sheet, cash and cash flow

FLT's global cash and investment portfolio totalled \$796m at December 31, 2010, compared to \$726m one year earlier.

Cash and fixed interest products represented 97% of this portfolio, with corporate collateralised debt obligations (CDOs) and hybrid products representing the balance.

FLT's cash holdings included \$250m in general funds, compared to \$230m at December 31, 2009.

Total borrowings were \$166m, giving the company an \$84m positive net debt position at December 31, 2010.

Cash flow followed its normal pattern, with FLT recording an operating cash outflow during its seasonally slower first half after paying funds that accumulated during the second half of 2009/10 to suppliers. The company expects a large second half inflow, as funds again accumulate during peak booking periods.

FLT's directors today declared a fully franked \$0.36 per share interim dividend, payable on April 1, 2011 to shareholders registered on March 11, 2011.

This represents a 51% return of NPAT to shareholders, in line with the company's dividend policy, and a 38% increase on the previous corresponding dividend.

Operational review

Managing director Graham Turner said results improved in all geographies, with Australia, the UK and Canada delivering record first half EBIT.

South Africa recorded healthy year-on-year EBIT growth, while New Zealand's results improved slightly.

The Asia-Middle East businesses contributed almost \$4m in EBIT. India performed in line with expectations, China generated its first profit, Singapore broke even over the half's last four months and the profitable Dubai business again performed well.

US trading losses decreased moderately, ahead of the business's key profit months.

"Overall, we have maintained our strong balance sheet, expanded our brand and business stable, achieved solid sales growth and recorded a first half PBT in excess of \$100m for the first time," Mr Turner said.

"This is, in fact, only our third PBT in excess of \$100m during any half year period, behind only the second halves of 2008 and 2010."

Mr Turner said while the Australian business continued to generate the majority of group profit, overseas businesses were gaining scale and were likely to make an increasingly valuable contribution in the future.

“Five years ago, we had 14 travel brands and about 1500 businesses in eight countries,” he said.

“Today, we have 36 brands and more than 2200 businesses in 11 countries, plus an FCm Travel Solutions corporate travel presence in 62 other countries.

“Half of our shops are located outside Australia.

“The UK business, in particular, continues to perform well and is now consistently the second largest contributor to group profit, behind Australia.

“This year, the UK is on track to achieve its best full year result, after narrowly missing its record in challenging trading conditions last year.”

FLT’s UK business has developed a shop growth strategy that has allowed it to cost-effectively access prime retail sites in the heart of London and other key cities.

The strategy involves opening multiple businesses in one prime location – as opposed to FLT’s traditional one shop per site model – thereby reducing the rental obligation that an individual sales consultant and sales team normally faces.

“Hyperstores” capable of housing up to 50 consultants are now open in Kensington, Oxford Street and Oxford City. “Megastores” and “superstores”, housing two and three sales teams respectively, have also opened.

Under the hyperstore model, two Flight Centre teams typically occupy the building’s prime walk-in locations, with corporate sales teams and other businesses that rely on phone or email enquiry located in the building’s other floors.

In addition to growing its established businesses and brands globally, FLT:

- Acquired 80% of gapyear.com, a UK-based social networking and travel site, and the remaining 74% interest in US corporate travel business Garber
- Developed new brands to target market niches. Examples include discountcruises.com in the USA, Canada and South Africa and hotcaribbeand deals.com in the USA; and

- Exported existing brands and businesses to new geographies. The company has launched Cruiseabout, Student Flights and Round-The-World Experts in New Zealand, Student Flights and Escape Travel in the UK, flightcenter.com in the USA and Flight Centre-branded websites in Hong Kong, China, Singapore and Dubai. The Intrepid retail shop in New Zealand also became part of the FLT-Intrepid joint venture during the first half

Elsewhere in the company, joint venture cycle business Pedal Group generated almost \$250,000 in EBITDA and \$11.5m in sales.

Since Pedal Group was formed in 2008, sales have increased at a 77% compound annual growth rate (CAGR) over the three first halves.

Retailer 99 Bikes and wholesaler Advance Traders Australia (ATA) are both poised for further expansion.

99 Bikes currently has seven shops in south east Queensland and is set for continued shop growth, both in Queensland and interstate.

ATA, distributor of the Merida, DK and Indi brands, has recently launched a children's range and could eventually distribute additional brands, following its success in growing Merida sales. During 2010, ATA was the world's second largest Merida distributor, behind Germany, where the bikes are designed.

Mr Turner said several other new businesses were also generating promising results.

"While currently small, our specialty brands and businesses complement our established operations and are recording healthy year-on-year growth," he said.

"For example:

- Cruiseabout has recorded a 75% CAGR in TTV in Australia over the past four first halves
- Round-The-World Experts in the UK has delivered a 74% CAGR in TTV over the past five first halves
- FCm Travel Solutions in Dubai has delivered a 63% CAGR in TTV over the past three first halves; and

- Foreign exchange business Travel Money has achieved a 51% CAGR in TTV in Australia over the past four first halves

“These brands use the basic FLT business model and are helping the company increase its market share in sectors with strong growth potential.”

Outlook – 2010/11

While FLT has started the year well, the company has not amended its guidance.

It will continue to target a full year PBT between \$220m and \$240m, excluding any abnormal items that may arise.

If achieved, this will represent 10-20% growth on the \$198.5m 2009/10 result.

“While we have had a good first half and a reasonable January, the months that traditionally represent our busiest trading periods are still to come,” Mr Turner said.

“Given some ongoing economic volatility, it would be premature to guarantee full year earnings will be materially outside the relatively broad range we have outlined.

“The 2009/10 second half was a stronger trading period, so we would not expect to maintain our current profit growth rate of greater than 30% over the full year.

“Several recent events have also affected the broader travel sector including unrest in Cairo, North Queensland’s cyclones and the tragic floods in parts of Australia. These events have adversely impacted tourism to affected regions, but have not materially affected FLT’s earnings as travellers have typically postponed holidays or travelled to alternative destinations rather than cancelled plans.

“In leisure travel, enquiry levels and profits have been reasonable, but customers have generally been cautious and value focused. The company is not yet seeing the levels of consumer confidence experienced during the fourth quarter of 2009/10.

“By contrast, the global corporate travel sector was recovering last year and should continue to deliver healthy growth.”

FLT was directly affected by last month's Queensland floods, with up to 70 corporate and retail travel outlets temporarily closed after power outages. The company's Brisbane head office was also lightly staffed for a day, which led to some support functions being temporarily relocated.

To help those affected by the floods, FLT will donate \$10 to the Queensland Premier's Disaster Relief Appeal for every ticket its Australian leisure travel shops issue between January 18 and February 28, 2011. FLT has not capped its contribution and has raised in the order of \$3m to date.

In addition to its ongoing business improvement initiatives, the company will continue to focus on six key areas globally:

1. Attracting and retaining the right leaders in the right numbers. Initiatives include a graduate recruitment program, a future leader project, mentoring and formal accreditation of FLT's leadership and development programs
2. Sourcing and manufacturing unique air and land product. Examples include Student Flights' Black Market airfares and the My Time program, which was just launched in the US. My Time gives FLT customers priority services and amenities at various Caribbean and Mexico properties and is set for expansion in key leisure destinations
3. Using FLT's "One Best Way" in all major areas, such as brand guides and customer systems. This encompasses the Big Easy project, initiatives that will make it easier for customers and consultants to source, quote and book the best deals
4. Applying effective business growth systems (BGS) and milestones follow-up on new, emerging and acquired businesses. Between 15 and 20 businesses are currently part of the BGS program
5. Enhancing FLT's global distribution system for air, land and the web. This includes a consultant desktop that is now being piloted, ahead of its global launch. The desktop was developed by Travelport and was secured as part of FLT's current Global Distribution System deal; and
6. Defending FLT's model and growing market share in and against other internet products

FLT continues to develop online offerings to complement its bricks and mortar businesses.

These offerings now include:

- Transactional websites, including accommodation site quickbeds.com and flightcenter.com in the USA. Since its relaunch in October 2010, quickbeds.com has recorded healthy sales and profit growth
- Sites that predominantly generate enquiry for retail shops. For example, flightcentre.com.au
- Direct brands that generate enquiry which is serviced online or via the phone. Examples include roundtheworldexperts.co.uk, discountcruises.com and escapetravel.co.uk; and
- Flight Centre branded websites that operate in countries where FLT does not have retail shops. Examples include flightcentre.com.hk, which has helped the Hong Kong leisure travel business generate solid TTV growth from a small base. Leisure travel now represents up to 20% of TTV in Hong Kong

The company has also implemented a global social media strategy across all brands.

In Australia, FLT will work with tourism bodies and its suppliers to stimulate visitor numbers at a time when the domestic leisure travel market is experiencing some of the challenges that retailers in other sectors have recently reported.

The outbound leisure market has been affected to a lesser degree, with several factors pointing to ongoing growth opportunities including:

- Continued availability of cheap international airfares – Flight Centre is currently advertising return Melbourne to London flights for just over \$1200
- Relatively low unemployment; and
- The Australian dollar's current strength, which means spending money now stretches further in some key overseas markets

While international fares remain highly affordable, following the unprecedented discounting by airlines during the GFC, moderate short to medium term rises are likely if oil prices continue to increase. Some airlines have already responded to recent fuel price rises by increasing base prices or fuel surcharges.

“Recent court rulings generally mean that airlines pay some commission to travel agents in return for the millions of dollars in compulsory fuel surcharges they are required to collect from travellers,” Mr Turner said.

“Unfortunately, the rulings have not yet brought an end to the practice of treating fuel as a surcharge and somehow separate from the other unavoidable costs of flying.

“We continue to believe that airlines should eliminate fuel surcharges and simply increase or decrease base fares to reflect the true cost of air travel, rather than persist with surcharges that are only periodically changed.

“History clearly shows that the majority of surcharge changes are increases.”

In the USA, FLT continues to target stronger sales results and a positive full year EBIT contribution from the combined Liberty, GOGO and FCm Travel Solutions business. The business lost \$2.3m (normalised) at EBIT level last year.

The FCm corporate travel business is on track to deliver a record full year profit and is gaining scale, with the Garber acquisition and new offices opening in Washington DC and New York City. A Seattle office opened late in the second half of 2009/10

Liberty and wholesaler GOGO are again expected to trade profitably during the second half, the period when US customers typically book their summer vacations.

Significant system changes have taken place in Liberty and GOGO during the past 12 months to bring the acquired business into line with FLT’s businesses globally.

Changes have included the introduction of:

- FLT’s wholesale platform, which adversely affected GOGO sales and overall US TTV during the transition. The change has, however, given FLT’s other businesses globally access to Liberty and GOGO’s US, Mexico and Caribbean range, which has led to healthy sales growth outside the US
- A new revenue recognition system, which has paved the way for the introduction of FLT’s incentive system. As revenue is now recognised when customers pay in full, a higher portion of TTV will also be generated during the year’s major second half booking periods; and
- The Client mid-office system, which should streamline in-store processes

Key changes are now complete and forward bookings for both Liberty and GOGO are currently tracking ahead of the corresponding period in 2009/10.

Other significant developments recently have included:

- New Liberty shops opened in Manhattan's 6th Avenue and New Jersey and additional sites identified in Long island, Pittsburgh, Brooklyn and Queens
- Recruitment of new sales consultants ahead of the upcoming summer season. As new staff gain experience, conversion and TTV should improve
- Record customer enquiry in January 2011; and
- New initiatives launched to improve sales conversion and capitalise on the strong interest being generated by the company's marketing campaigns

While Liberty is not impaired, FLT continues to closely monitor the US retail business's current and forecast performance to ensure the associated goodwill balance is appropriate.

[ENDS Media and investor enquiries to Haydn Long 0418 750454](#)

FLT result presentation: FLT's result conference call for investors will be held at 11am (QLD time) today. Phone: 1800 428662 (Australia) or (02) 9696 0911 (International). Conference ID: 45254335