Statement to Australian Securities Exchange - August 27, 2014

FLIGHT CENTRE TRAVEL GROUP RELEASES AUDITED 2013/14 ACCOUNTS

Result summary

	30 June 2014	30 June 2013	Growth
Sales & Margin			
TTV	$16.0b	$14.3b	**12.6%**
Revenue	$2.2b	$2.0b	**13.0%**
Income Margin	14.0%	13.9%	**10bps**
Net Margin (underlying)	2.35%	2.41%	**(6bps)**
Profit			
Underlying Profit Before Tax	$376.5m	$343.1m	**9.7%**
Non-recurring Items*	($52.7m)	$6.1m	
Statutory Profit Before Tax	$323.8m	$349.2m	**(7.3%)**
Underlying Net Profit After Tax	$263.6m	$240.0m	**9.8%**
Statutory Net Profit After Tax	$206.9m	$246.1m	**(15.9%)**
Dividends			
Interim Dividend	55.0c	46.0c	**19.6%**
Final Dividend	97.0c	91.0c	**6.6%**

* As illustrated above, underlying results are before non-recurring items and statutory results are after non-recurring items

Result overview

THE Flight Centre Travel Group (FLT) today announced record results for 2013/14.

The company traded solidly during the year to June 30, 2014 and achieved new sales and underlying profit milestones, while continuing to expand its global network.

Result highlights included:

- 12.6% TTV growth to $16billion. In dollar terms, TTV increased by $1.7billion year-on-year without any significant acquisitions
- 13% revenue growth to $2.2billion
- 9.7% underlying profit before tax (PBT) growth to $376.5million; and
- 9.8% growth in underlying net profit after tax (NPAT) to $263.6million

FLT's underlying profit results were within the range that the company initially targeted ($370million-$385million).

Statutory PBT and NPAT were, however, lower than underlying results because of the impacts of some significant non-recurring items.

As announced previously, these items were:

- The $61.3million non-cash write-downs to goodwill and brand names (announced July 2014)
- $11million in fines imposed after the ACCC's competition law test case. FLT has appealed both the judgment and the fines that were subsequently imposed and has been advised that both appeals are likely to be heard in November 2014; and
- A one-off $19.6million gain within the Flight Centre Global Product (FCGP) business that was initially flagged at the half year in February 2014

Including these items, FLT achieved a statutory PBT of $323.8million and a statutory NPAT of $206.9million.

Income margin (revenue as a percentage of TTV) increased slightly to 14%.

Net margin (underlying PBT as a percentage of TTV) was 2.35%, a slight decrease on the prior year. This decrease was expected, given that FLT returned its sales and marketing investment to normal levels, following a reduced spend during 2012/13.

Cash and cash flow

General cash (company funds) increased about 10% to $476million at June 30, 2014.

Debt was just under $45million at year-end, giving the company a $431.2million positive net debt position (FY2013: $387.6million).

FLT's operating cash flow during 2013/14 followed traditional patterns, with funds accumulating during peak second half booking periods for payment to suppliers after peak travel periods during the first half of 2014/15.

A full year $227.1million operating cash inflow was recorded, compared to a $370.3million inflow during 2012/13.

The year-on-year movement was largely brought about by:

- Timing factors related to the BSP (airline) payment cycle: In simple terms, this meant that FLT had four fewer days of BSP payments accumulated during 2013/14; and
- Tax-related changes: From January 2014, FLT was required to pay tax instalments monthly, rather than quarterly. As a result, some payments that would normally have been made during future periods were paid during 2013/14

In terms of costs, wages increased as the company expanded its sales network.

Payments to Key Management Personnel (KMP), however, decreased 13% year-on-year because the company achieved a lower rate of underlying PBT growth during 2013/14 (9.7%) than during 2012/13 (18.2%).

Network expansion also meant that rental costs increased. Generally, lease renewals attracted slight rent increases, while discounts were secured for new leases.

FLT's sales and marketing costs over the full year represented 1.1% of TTV, in line with expectations and historical trends.

Dividends

FLT's directors today declared a fully franked $0.97 per share final dividend for 2013/14 (to be paid on October 17, 2014 to shareholders registered on September 19, 2014).

This follows the $0.55 per share interim dividend (paid in April 2014) and takes total dividends for the year to a record $1.52 per share, an 11% increase on 2012/13.

The combined interim and final dividend payments represent a 58% return of underlying NPAT (74% of statutory NPAT) to shareholders.

Operational highlights

Managing director Graham Turner said operational highlights included:

- Solid trading results in most countries

- Significant progress in the strategic transition from travel agent to world class retailer (outlined in greater detail in the following section); and
- Continued network expansion, with almost 1200 new jobs created. In addition to growing organically, FLT acquired a corporate travel business in Ireland, Travelplan Corporate, in April 2014 and announced plans to create a destination management joint venture in Asia (to trade under the Buffalo Tours brand)

"For the fourth consecutive year, all ten countries were profitable," Mr Turner said.

"Record TTV was generated in each of these countries in local currency and seven businesses - Australia, the United Kingdom, the United States, New Zealand, South Africa, Singapore and Greater China - delivered record EBIT.

"While the Australian business remained the company's main profit and sales driver, significant progress was again made overseas.

"Together, FLT’s international businesses contributed $90.2million to group EBIT, a 21% year-on-year increase. This means combined overseas EBIT has now almost tripled over the past four years."

In Australia, sales and profits increased in both the leisure and business travel sectors.

Leisure results were generally stronger, although profit growth slowed late in the year, following the Federal Budget's release in Australia.

The company's second Australian hyperstore opened in Brisbane's Queen Street Mall in October 2013 and has been profitable every month. FLT's next Australian hyperstore will open in Darwin late in the first half of 2014/15.

Corporate TTV increased marginally, but solid EBIT growth was achieved as the business benefitted from cost reduction initiatives that took place late in 2012/13.

The UK contributed more than $1.5billion in TTV and was again FLT's largest profit contributor after Australia.

UK EBIT increased 24% to $39.8million, with both the leisure and corporate businesses growing solidly.

FLT's UK network includes a mix of standalone (boutique) shops and flagship locations housing two or more teams.

Nine hyperstores are now in place. This includes four in London (High Street Kensington, Oxford Street, Victoria and Monument) and regional hyperstores in Aberdeen, Leeds, Bristol, Oxford and Manchester.

The US business was again FLT's second largest region by sales, behind Australia.

The business turned over in excess of $AUD2billion and generated a record $12.7million in EBIT, up 16% on the prior year.

The US corporate travel business was again the major profit driver and generated 44% of the country's TTV.

The SME-focussed Corporate Traveller brand expanded into Atlanta and Miami, giving it a presence in 17 US cities.

Expansion into Orange County and Silicon Valley has been planned for 2014/15, as the company continues to develop its footprint in the world's largest corporate travel market.

The leisure business also expanded, with Flight Center branded businesses opening within some Liberty locations and a second US hyperstore opening in Boston.

Hyperstores are earmarked for Philadelphia (under construction) and Los Angeles (lease in place) during 2014/15.

As announced previously, the US write-downs applied to the Liberty (leisure) and GOGO (wholesale) businesses, which were acquired in 2008, just before the US recession and the broader GFC. The Liberty/GOGO acquisition also included a product contracting area that has delivered solid returns within the Flight Centre Global Product (FCGP) business.

Elsewhere in the world:

- New Zealand and South Africa performed strongly. In NZ, EBIT exceeded the record established in 2003, while TTV in local currency finished just below $NZD1billion
- The emerging Greater China and Singapore businesses delivered record results. While corporate travel was again the major contributor, the Hong Kong and Singapore leisure businesses were profitable over the full year
- In Canada, TTV exceeded $C1billion for the first time, but bottom-line results were below expectations, particularly in leisure. Enhancing consultant productivity and broadening the business's product mix are ongoing priorities to improve performance
- EBIT in India was in line with the prior year. As announced previously, FLT has written down the value of its India investment by $13million

- UAE EBIT finished slightly down on the prior year. To complement its corporate business, FLT will open a leisure travel shop in Abu Dhabi late in the first half of 2014/15, following the opening of a Dubai shop during 2012/13; and
- Travelplan Corporate, the acquisition in Ireland: performed in line with expectations and contributed a small profit in the months since acquisition

Outside of the travel sector, the Pedal Group (cycle) joint venture generated $45.6million in sales, 26% annual growth, and achieved almost $2.1million in EBIT during its fifth full year.

Retailer 99 Bikes now has 17 stores in Australia, plus a popular web-store, and plans to open an additional three shops during 2014/15.

Wholesaler Advance Traders Australia (ATA) imported more than 45,000 bikes during 2013/14 and continued to develop a strong nationwide network of retail partners. This network includes 16 independent retailers who now trade as Bicycle Centre licensees, with ATA's support.

Strategic update - FLT's Killer Theme and its Noble Selling Purpose

FLT is reinventing itself, with the transformation from travel agent to world class retailer to both leisure and corporate travellers and a new Noble Selling Purpose (NSP) at the heart of the strategic changes that are taking place.

The transformation, which the company refers to as its Killer Theme, has become the global blueprint for its future and has been built around seven key strategies or mini themes:

1. Brand and specialisation: Developing brands that specialise in specific areas of travel and have clear customer value propositions (CVPs). As a starting point, brands must answer three key questions - what do they have that's special, what do they know that's special and what do they do that's special?
2. Unique product: Making, combining and sourcing exclusive FLT products and services, rather than just selling suppliers' products. In Australia, each of the company's leisure brands now has exclusive product ranges in line with its specialisation, as does FLT's corporate travel business
3. Experts, not agents: Ensuring each brand's people are experts in understanding the brand's speciality. This expertise is being enhanced via training, physical environments, at the point-of-sale and by tapping into the vast knowledge pool that exists in the company behind-the-scenes
4. Redefining the shop: Ensuring corporate, wholesale and retail spaces reflect that FLT's people are retailers first and foremost, not office workers

5. Blended access: Ensuring FLT's businesses are always open. Customers can touch, browse and buy FLT's products when and how they want – online, offline, shop, email, chat, phone or SMS
6. Information – profiles, patterns and predictions: Gaining a better understanding of customer habits and proactively using this information to develop better products and increase FLT's relevance to customers; and
7. A better sales and marketing machine, focused on lead and enquiry generation: Ensuring each brand engages with customers across the travel cycle's five phases and has content that is relevant and up to date

"In each of these areas, we have made significant progress during 2013/14," Mr Turner said.

"We have been particularly active and successful in developing and launching unique product ranges (mini theme 2).

"For example, Flight Centre's Red Label range of airfares and holidays was launched in June 2013 and, in its first year, some 50,000 Red Label tickets were sold in Australia alone.

"This represented about $130million in TTV from a start-up product range.

"Change is also underway within our shops (mini theme 4) to ensure that our leisure and corporate travel businesses are seen as exciting branded businesses - not office spaces.

"Several new design features that were trialled in Brisbane's Queen Street hyperstore have now been included as standard in our leisure shop fit-out and refurbishment plans.

"For Flight Centre brand, these features include:

- Toblerone desks that allow for more open and personal consultations
- Digital departures boards highlighting the best airfare offers
- Scribble maps that allow our people to map out itineraries and options for customers
- Product zones showcasing our exciting new product ranges; and
- The use of live, digital content

"Our focus on developing a blended offering (mini theme 5) has seen all sales and communications channels enhanced to meet customers' changing habits.

"In leisure travel, this has seen:

- Shop trading hours extended significantly in recent years

- More products made available online. This includes international flights on flightcentre.com.au**,** a broad cruise range on cruiseabout.com.au and flights, hotels, vacation packages and cruises on libertytravel.com during 2013/14
- More after-hours sales teams deployed within head office locations to service the large volume of customer enquiry that is now being generated after hours
- "Chat" capabilities included on several websites; and
- The development of mobile sites, which will soon be followed by the launch of responsive sites and booking engines

"For corporate customers, we have enhanced the blended model that has always been in place. New online booking tools have been launched, along with services and features that have paved the way for customers to have multiple ways to access their brand."

The company's Killer Theme and mini themes are also aligned to a new concept that is being rolled out, FLT's NSP - We care about delivering amazing travel experiences.

The NSP firstly recognises the life-changing, exciting product of travel that FLT sells and secondly that FLT's people want to be part of a company that does far more than simply process travel transactions.

The concept was launched globally in July 2014 and strategies have already been implemented to help embed the NSP in the company's culture.

The Golden Era of Travel

Mr Turner said FLT's Killer Theme and NSP highlighted the strategic changes the company was making as the world entered a golden era of travel.

"This golden era is characterised by:

- Cheaper airfares - flights are becoming more and more affordable in relative terms
- More choice - this applies to all travel sectors and to airlines in particular. New product ranges are being developed and travellers are being presented with a broader selection of offerings
- Greater luxury and comfort - airline seats and in-flight entertainment programs are better, as are the food and service; and
- Less flying time - flights are now faster, more direct and more reliable

"Low cost carriers don't suit all travellers, but they have forced traditional carriers to innovate and have helped make it affordable for huge numbers of people to experience this golden era of travel.

"Travellers are the big winners."

The significant improvements in airfare affordability can be highlighted by matching historic flight prices with average wages that applied at the time.

When Qantas's first London flight took off in 1947, passengers paid the equivalent of $1170 - about 85 weeks pay for the average worker at the time - for the four-day each-way flight.

By comparison, FLT has this month advertised return flights from Sydney to London from just $1359, which is less than one week's salary ($1515) for the average Australian worker according to the latest Australian Bureau of Statistics findings.

At the midpoint between these two dates - the early 1980s - Qantas started a price war on the famous Kangaroo Route to London with an $1800 return fare, which represented roughly six weeks' pay for the average worker.

"Based on today's average wage, the 1947 fare cost the equivalent of almost $130,000 and the early 1980s fare cost the equivalent of just over $9,000," Mr Turner said.

"Interestingly, it is still possible to book return fares to London today - more than 30 years later - for $1800 or less.

"Had an $1800 airfare simply increased in line with inflation since the early 1980s, it would today cost in the order of $6500, an amount that would comfortably pay for a return business class seat to London or four of the cheapest economy fares."

Outlook - 2014/15

In terms of 2014/15 guidance, FLT will initially target an underlying PBT between $395million and $405million (excluding any significant unforseen items that can potentially arise).

A PBT within this range will represent 5-8% growth on the record underlying PBT achieved during 2013/14.

If achieved, a result within this range will also mean that PBT will have doubled in the five years between June 30, 2010 and June 30, 2015.

During 2014/15, FLT will target a first half profit result broadly in line with 2013/14 and will aim for accelerated profit growth during the second half of the year. The second half of 2013/14 was a comparatively weaker trading period, as growth slowed in the Australian leisure business in the lead-up to and following the Federal Budget's release.

Sales increased modestly in the Australian leisure business in both June and July, after a flat May.

The rate of TTV growth is being adversely impacted by lower yields (cheaper airfares) on some key international routes.

The Australian corporate travel business has achieved slightly stronger TTV growth in the early weeks of 2014/15, with new client wins offsetting the lingering effects of client downtrading in some sectors.

"While we cannot predict a timeframe for full recovery, our experience shows that short-term downturns are often followed by healthy uplifts in demand as Australian leisure travellers get itchy feet and take off to ensure they make the most of their holiday time," Mr Turner said.

"The cheap airfares we are seeing create exciting travel opportunities for our customers and we will continue to proactively promote the best deals."

FLT recently analysed the cheapest advertised fares to ten popular international destinations and compared these fares to the cheapest advertised offers 12 months ago.

The analysis showed that the average fare this year was 3.5% cheaper than it was last year.

The ten destinations were: Auckland, Bali, Bangkok, Fiji, Hawaii, Phuket, London, Los Angeles, New York and Singapore.

Across the board, FLT's figures show that the largest decreases in airfare prices have been on flights to Asia and Europe.

Within FLT's individual businesses, the company will continue to focus on its key strategies.

In Australia, FLT will this year place additional emphasis on:

- The customer and its NSP
- Sales and marketing effectiveness
- Generating stronger sales growth in corporate travel
- Enhancing its information base; and
- Fostering leadership expertise at store level and elsewhere

The US and UK, which together generated about $3.5billion in TTV and more than $50million in EBIT during 2013/14, are again likely to be important contributors.

Both countries' corporate travel businesses are performing well and are poised for further expansion, with US corporate now on track to top $1billion in TTV during 2014/15.

In leisure travel, the UK business has had great success in the niche sectors it has targeted as part of its well established plan to become a dominant player in various specialist areas, rather than a mass market retailer.

The Liberty leisure business in the USA, which has historically been seen as a Mexico/Caribbean vacation package specialist, is also targeting new niches and is proactively working to increase sales to Europe.

"This sector alone is larger than the entire Australian outbound travel sector, with more than 10million Americans taking off to Europe during 2013," Mr Turner said.

"To increase our share of this market, we have adopted various strategies including the EuroGuru program that has been initiated in Manhattan.

"Under this program, customer enquiry for European flights and products is channelled to expert EuroGurus.

"Growth in the company's Europe air sales is now outpacing growth in sales to other destinations and the Manhattan stores with EuroGurus are outperforming other shops."

Overall, FLT expects to grow its global sales network by 5-7% organically during 2014/15.

While growth will largely be organic, the company will continue to pursue strategic acquisitions, with a particular focus on capital-light vertical integration opportunities.

The company has today agreed to invest in UK-based Topdeck Tours, a business that Graham Turner cofounded in London in 1973 and was effectively the predecessor to FLT.

Topdeck specialises in overland tours for "18 to 30 somethings" and offers a broad range of journeys across Europe, Australia, New Zealand, Northern Africa and the Middle East. A North American tour range has just been launched.

FLT's Topdeck investment is outlined in a separate market announcement today.

The company also hopes to complement its organic growth by expanding its Escape Travel franchise offering, which is delivering solid returns to participating franchisees.

Seven franchise shops have joined the network since the model was reintroduced 10 months ago.

Capital management

FLT plans to retain sufficient company cash to cover three months' operating expenses.

While the company's June 30 cash balance was in line with this plan, cash reserves typically decrease during the first half of a financial year as FLT pays dividends, tax instalments and suppliers for travel booked during the peak periods during the previous second half. Cash may also be used for acquisitions and to fund the company's corporate travel expansion.

FLT's board intends to maintain the current dividend policy, which is to return 50-60% of NPAT to shareholders.

ENDS Media and investor enquiries to Haydn Long 0418 750454

Conference call: FLT will present its results to the market at 10am today (August 27). Phone (02) 80385221. Conference ID 92961120.