Statement to Australian Securities Exchange - February 22, 2018

FLIGHT CENTRE TRAVEL GROUP UPDATES FULL YEAR GUIDANCE AFTER STRONG START TO FY18

First Half Result Highlights:

- Record TTV globally and in all countries - up 8.7% ($814million) to $10.16billion
- $139.4million PBT - underlying profit up 23.2% and above targeted range, leading to upgraded full year guidance
- Executing key strategies - transformation initiatives underway and gaining traction, 7% productivity growth achieved
- Benefiting from business and geographic diversity - profit in all geographic segments, further corporate travel market-share growth
- Delivering stronger shareholder returns - record equalling 60 cents per share interim dividend, 37% EPS growth

1H Overview

THE Flight Centre Travel Group (FLT) has updated its 2018 fiscal year (FY18) guidance after recording strong first half (1H) growth.

In releasing its accounts for the six months to December 31 2017, FLT today revealed record global sales and a $139.4million profit before tax (PBT) for the period.

PBT increased 23.2% compared to the $113.2million underlying* 1H PBT achieved last year (up 27.7% compared to the $109.2million actual result) as total transaction value (TTV) exceeded the record FY17 1H result by more than $800million (8.7%).

Profit during the period was slightly above the targeted 1H range ($120million-$135million), which has prompted FLT to lift its full year guidance to a $360million-$385million underlying PBT, compared to its initial target of a $350million to $380million result.

Managing director Graham Turner said the company had started the year well and had developed solid foundations for FY18.

"Generally, we can be pleased with our performance to date, given that we are tracking at or near record levels in most key financial areas," Mr Turner said.

"We have also made sound progress in executing operational strategies and transformation initiatives that have been developed to fast-track revenue growth and curb costs.

"Given the strategic progress we have made and our positive start to the year, we now believe that our profit will finish slightly higher than initially expected and we have adjusted our guidance accordingly.

"The mid-point in this new range - $372.5million - is 13% higher than the underlying FY17 result ($329.5million) and within reach of the record $376.5million underlying PBT that FLT achieved during FY14."

In addition to the record 1H sales and slightly higher than expected PBT, key achievements during the period included:

- Net margin improvement (PBT as a percentage of TTV), as FLT's transformation initiatives and other improvement strategies gained traction
- Productivity growth, with TTV growth significantly outpacing network growth
- Better cost control - cost growth during the 1H was the lowest since the Global Financial Crisis (GFC) of 2009; and
- Enhanced shareholder returns, underpinned by 37% earnings per share growth, a record-equalling interim dividend and a 46% total shareholder return during the 2017 calendar year

In addition, FLT has just completed its new in-store system (GDS) roll-out, with deployment in the Australian and New Zealand leisure businesses bringing the two-and-a-half-year global project to an end.

The system change was the largest deployment undertaken in Australia to date, with almost 7000 leisure consultants migrated onto the new GDS (Sabre in Australia and New Zealand) over a five-month period.

Financial Results

1H TTV increased 8.7% to $10.16billion (9.3% in constant currency) and has now more than doubled during the past eight years as FLT has continued to deliver consistent growth throughout the trading cycle.

Growth during the 1H corresponded with a period of network consolidation, which saw overall sales staff numbers decrease modestly, highlighting FLT's ongoing success in achieving its strategic objective of increasing productivity.

TTV per person, FLT's key productivity metric, increased 7% from $481,000 during the prior corresponding period (PCP) to $513,000.

Revenue increased 5.4% to $1.37billion, which led to a lower overall income margin (revenue as a percentage of TTV).

This contraction was expected, given changes in FLT's business mix, with several lower income margin sectors, including multi-national corporate travel (FCM), online leisure travel (BYOjet, Aunt Betty, Student Universe) and FX (Travel Money), growing strongly.

Together, these businesses generated almost 30% of 1H TTV.

The Travel Tours acquisition in India during FY17 and the growth in the local FX business also contributed to FLT's income margin decrease.

Income margin contraction was more than offset by net margin improvement, with PBT as a percentage of TTV increasing by 16 basis points (underlying) as a result of:

- Lower cost** growth, with cost margin (expenses as a percentage of TTV) decreasing from 12.24% during the FY17 1H to 11.58% during the FY18 1H and overall costs increasing by 3% or $32.6million year-on-year, the lowest increase since the GFC
- Strong productivity gains; and
- Better network returns as some under-performing brands and businesses were closed and loss-making businesses were downsized or pivoted to improve results and as part of the company's transformation initiative

Net profit after tax (NPAT) grew more rapidly than PBT - increasing by 37.2% to $102.2million - as a result of USA tax rate changes and FLT's strong performance in the UK, which also operates with a lower corporate tax rate.

At December 31 2017, FLT had a $1.2billion global cash and investment portfolio, which included $468.4million in company (general) cash and investments.

Debt was $91.5million, giving FLT a $376.9million positive net debt position.

In light of this strong cash position, the directors have declared a fully franked 60 cents per share interim dividend (Payable on April 13, 2018 to shareholders registered on March 23).

The interim dividend, which represents a 59% return of NPAT to shareholders, is 33% higher than during the PCP and in line with the record FY16 interim dividend.

Segmented Results

Mr Turner said FLT's 1H financial achievements highlighted the company's increasing diversity and its decreasing reliance on Australia.

"While Australia was again the largest contributor to group results, FLT's overseas businesses predominantly drove overall growth - generating a record $38.2million in 1H PBT and almost half of group TTV during the period.

"All countries achieved record TTV and eight countries, including our established business in the UK, USA, Canada and South Africa, delivered record profit.

"For the first time, the US business was profitable during the seasonally softer 1H, while the Canada business continued its strong improvement trajectory.

"These are promising signs for the future, given the size of the North American market."

In leisure travel, profit improved as the company continued to develop multiple sales channels and blended offerings, in addition to downsizing or closing some loss-making brands and businesses.

Online sales again increased strongly, with FLT's specialist OTAs (BYOjet, StudentUniverse and Aunt Betty) achieving 27% 1H TTV growth.

Independent contractor businesses in Australia (Travel Partners Group) and New Zealand (Travel Managers) were acquired during the 1H to complement organically grown businesses in the USA, Canada, South Africa, New Zealand and Australia.

The corporate businesses grew strongly with TTV increasing by almost $600million or 19% globally to just under $3.8billion, consolidating FLT's position as one of the world's leading travel management companies.

Factors that are contributing to FLT's corporate travel success globally include strong multi-national sales growth and account wins within the FCM brand - FLT now has five $100million-per-year accounts - and ongoing investment in leading platforms and tools.

These tools include Sam :], a corporate "chat bot" that blends artificial intelligence with FLT's corporate account managers' expertise to deliver personalised, relevant information to business travellers' mobile devices.

Sam :] is now in use in the UK and the Americas and is set for launch in Australia during the 2H.

Quebec-based Les Voyages Laurier du Vallon (LDV) and New Zealand's Executive Travel Group were acquired during the period to bolster FLT's global corporate network.

The TEN businesses generated $80million in 1H TTV and should make a stronger 2H contribution following the 1H hotel management (BHMA) and DMC acquisitions (Olympus Tours) and with the Asia-based Buffalo Tours DMC now under FLT's control (effective January 2018).

Within FLT's geographic segments, FLT recorded 4% TTV growth in Australia-New Zealand and increased bottom-line results in both countries, while the GDS transition was underway.

The business finished the 1H solidly to surpass its FY17 1H PBT, with FLT initially expecting profit to be flat or down slightly during the period.

The Australian leisure shop network, including the rapidly expanding Travel Money business, generated about 44% of the company's 1H profit, with the network of flagship Flight Centre stores and hyperstores making another strong contribution.

In Australia, 80 of these Flight Centre businesses now generate 20% of the brand's leisure TTV and about 30% of the brand's profit.

The corporate businesses recorded strong TTV growth (up 9% in Australia), pointing to a further market-share increase.

As expected, FLT's sales force contracted slightly (3%) through natural attrition as the company temporarily slowed recruitment in Australia and instead focused on rolling out its new in-store systems.

The Americas businesses were key contributors to overall results, with the region generating about 20% of group TTV and topping $2billion in 1H sales for the first time.

After recording a $7million loss during the PCP, the region delivered an $8million 1H profit, as a result of Canada's ongoing turnaround and the inaugural US 1H profit.

US profit was again underpinned by strong corporate results and account wins, along with reduced leisure losses, as productivity and cost-related transformation initiatives started to gain traction.

Reduced leisure losses, driven in part by cost reduction initiatives, also contributed to the record Canada results.

FLT's businesses in Europe, the Middle East and Africa (EMEA) again performed strongly, with TTV increasing 16% to $1.4billion and profit increasing 37% to $35million, meaning the region generated almost 14% of group sales and about 25% of group PBT.

The established UK, South Africa and UAE businesses all made solid contributions, as productivity increased strongly throughout the region.

The Asia region delivered 45% TTV growth and a $1million underlying 1H PBT, as it started to benefit from transformation initiatives that have been implemented.

These initiatives included:

- The introduction of a regional South East Asia leadership structure late in FY17
- The focus on a single corporate brand, FCM, in Singapore, Malaysia, Mainland China and Hong Kong; and
- Downsizing the South East Asia leisure businesses (traditionally loss-makers), a strategy that has led to these businesses trading profitably during the 1H

Transformation Update

The transformation program that was initiated late in FY17 to ensure FLT achieved scalable and profitable growth throughout the economic cycle has started to gain momentum, with the company making solid progress towards its 7-2-100 targets during the 1H.

Specifically, these targets are:

- 7% average TTV growth per annum in constant currency over the next three years. FLT is currently tracking above this target
- A return to a 2% full year net margin within three to five years. Given the 16 basis point underlying improvement during the 1H, which is traditionally a lower margin trading period, FLT expects to improve on the 1.64% net margin it achieved during FY17 as it works toward its longer term target; and
- Less than $100million in cost growth during FY18 (on a constant currency basis), a goal that FLT is currently on track to achieve

To achieve these targets, the transformation program has initially focussed on four areas:

- Digital commerce growth

- Globalisation in the air, land and IT spaces
- Controlling costs and improving efficiency; and
- Investment in growth brands and business models

FLT's digital transformation has already delivered significant benefits, both in e-commerce and in the use of digital services in key areas of the business, including lead generation.

While other travel companies have raced to pursue technology-only models, FLT has moved to capitalise on its strong market position and key assets by investing in a blended "technology plus humans" model.

In terms of e-commerce or online completion, a key objective has been to make it easier for customers to buy the company's products.

This has led to:

- Upgrades to FLT's online booking platform, SOAR, to create stronger and globally scalable offerings that deliver better User Experience (UX) and User Interface (UI)
- Transactional Flight Centre websites being launched in South Africa and in the UK late in the 1H
- More products being made available online. Examples include Captain's Packages and low cost carrier fares and ancillary products on flightcentre.com.au; and
- New and improved mobile apps. The Flight Centre app in Australia and StudentUniverse's native app are growing and new versions are about to be released

The company's digital commerce centre in Boston (dNA), which now houses about 20 digital marketing and product experts, has also developed new lead management technology that has been trialled within the US leisure business, Liberty Travel.

This solution will allow the company to match customers with expert consultants to improve conversion. The pilot program that is currently underway initially focused on web-based leads but is now moving into phone-based enquiry.

FLT's focus on globalisation has seen it:

- Deploy new IT tools and platforms, including in-store booking systems (GDS) in several countries and a new global finance platform (Microsoft Dynamics). Dynamics' deployment in Australia is due to start late in the 2H
- Develop a global Ticket Centre (air business)
- Take advantage of various synergies between its network of land businesses. For example, Buffalo Tours is now Top Deck's ground handler in Asia; and
- Outsource or move some support functions to lower cost centres

FLT's cost control focus has led to the slowdown in expense growth during the 1H.

Contributing factors have included:

- Streamlined support structures as a result of globalisation, out-sourcing and the head office redundancies in Australia and South East Asia last year
- Network planning to achieve a better overall return on the investment in shops
- Reduced marketing spend, with the company generating enquiry in a more cost effective way; and
- The productivity gains that have delivered TTV growth during a period of network consolidation

As part of its commitment to investing in growth brands and business models and closing or pivoting loss-makers, the company initially focused on turning around the loss-making leisure businesses in North America, Asia and the UAE.

Now that this turnaround is gaining traction, FLT has set its sights on growing market-share within the Australian leisure business, its largest and most successful operation.

Strategies include merging some smaller brands to create three larger and individually more successful leisure super networks, backed by streamlined support teams and focusing on:

- Mass market (Flight Centre and BYOjet/Aunt Betty)
- Premium (Travel Associates and Travel Partners); and
- Youth (Student Flights/StudentUniverse)

Under this Rebrand and Grow plan, which is now underway, all Escape Travel and Cruiseabout shops in Australia will be rebranded to either Flight Centre or Travel Associates.

All Escape Travel and Cruiseabout sales staff will also switch to either Flight Centre or Travel Associates, to ensure the company's overall sales force is maintained and to ensure a seamless transition for customers

Following the change, Travel Associates will immediately double in size, going from 50 to more than 100 sales teams, while specialist divisions will be created within Flight Centre brand to better service enquiry that Escape Travel and Cruiseabout previously captured.

Each super network will continue to work closely with its key suppliers to develop new products and to grow the overall leisure travel market.

People are at the heart of FLT's future plans and new initiatives are being introduced to attract, retain and develop the right people.

For example, a diversity project is underway to help women progress within the company and a paid maternity leave program is also being introduced in Australia from July 1, 2018.

At Board level, the company has recently appointed Colette Garnsey, one of Australia's most respected retail leaders, as a non-executive director.

Outlook

FLT's stronger than expected 1H has prompted it to adjust its FY18 guidance, as outlined previously.

While profit growth is again expected during the 2H if current trading conditions continue, the accelerated growth rate achieved during the 1H is unlikely to be maintained. given that the FY17 2H was a comparatively stronger trading period.

Underlying PBT during the FY17 2H increased 4.7%, after being 22.5% down in challenging trading conditions during the six months to December 31, 2016.

"Generally, the company expects 1H operational trends to continue, with overseas businesses, particularly the large North American and EMEA operations, likely to drive FY18 profit growth," Mr Turner said.

"The smaller Asia businesses are also on track to deliver solid year-on-year improvement, following their positive start to the year.

"In Australia and New Zealand, we are well placed to grow in the corporate sector, given the positive 1H momentum. SME specialist Corporate Traveller is also geared for further growth with refreshed branding and an enhanced expert technology suite, which now includes CT GO, a new online booking platform that can be implemented in less than 15 minutes."

While new in-store systems are now fully deployed, further short-term disruption is possible in the Australia leisure business while the new market-share growth plan is implemented.

Strategies are in place to minimise any negative impacts from this plan in the short-term before the longer term benefits are gained.

FLT also expects further market growth globally as the Golden Era of Travel continues.

In Australia, factors that are likely to contribute to this growth include:

- Affordability: While FLT has not seen significant increases in international airfare pricing in Australia, average fares have generally stabilised after the across-the-board discounting that took place for much of FY17
- Accessibility: Airline capacity continues to grow, albeit at a more modest rate than during FY17; and
- Amenities: In-flight services and options continue to improve. Upcoming and recent enhancements include next month's launch of direct Qantas flights from Perth to London, new low cost options to Europe with Scoot from June, Emirates' new first and business class suites and Virgin Australia's Economy X service, which offers extra legroom, dedicated locker space and other bonuses

FLT's transformation program is expected to deliver further 2H benefits, along with some additional costs, as the company moves to lower head office (support) overheads, continues to invest in its tech transformation and launches its Australian super networks. While 2H costs will increase, the company remains comfortable with its target of less than $100million cost growth during FY18 .

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*Underlying FY17 results do not include the one-off $4,066,000 loss FLT incurred on exiting the Employment Office JV during the 1H of last year

** FLT's $100million cost growth target for FY17 does not include tour operating costs, which have been stated separately for the first time during the 1H

Additional Details

A conference call for analysts and investors will be held at 10am Queensland time (11am NSW) today.

Call details are as follows:

Date: Thursday, February 22, 2017
Time: 10.00am (QLD)
Dial-in details: Phone (02) 80385221 or 1800 123296. Conference ID 9597648