



APPENDIX 4D
FINANCIAL REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

FLIGHT CENTRE TRAVEL GROUP LIMITED (FLT)
ABN 25 003 377 188

CONTENTS

APPENDIX 4D: RESULTS FOR ANNOUNCEMENT TO THE MARKET	3
DIRECTORS' REPORT	5
AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF FLIGHT CENTRE TRAVEL GROUP LIMITED	11
STATEMENT OF PROFIT OR LOSS	12
STATEMENT OF OTHER COMPREHENSIVE INCOME	13
STATEMENT OF CASH FLOWS	14
BALANCE SHEET	15
STATEMENT OF CHANGES IN EQUITY	16
NOTES TO THE FINANCIAL STATEMENTS	17
DIRECTORS' DECLARATION	40
INDEPENDENT AUDITOR'S REVIEW REPORT	41

APPENDIX 4D

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	DEC 2018 \$'000	DEC 2017 \$'000 RESTATED ¹	CHANGE \$'000	CHANGE %
RESULTS IN BRIEF				
Total transaction value (TTV) ²	11,155,184	10,153,887	1,001,297	9.9%
Revenue	1,461,509	1,360,307	101,202	7.4%
Statutory profit before tax	127,405	139,434	(12,029)	(8.6%)
Statutory profit after tax	85,024	102,300	(17,276)	(16.9%)
Statutory profit attributable to company owners	84,797	102,235	(17,438)	(17.1%)
Underlying profit before tax ³	140,411	139,429	982	0.7%

¹ FLT has adopted AASB 15 *Revenue from Contracts with Customers* with an initial application date of 1 July 2018 utilising the full retrospective transition approach. Comparative information has been restated throughout the financial statements. The adoption of AASB 15 has resulted in a net decrease in retained earnings at 1 July 2017 of \$14,420,000 and an increase in H1'18 profit before tax of \$5,000. Refer to note 19 for further information.

² TTV is non-IFRS financial information and is not subject to audit or review procedures, and does not represent revenue in accordance with Australian Accounting Standards. TTV represents the price at which travel products and services have been sold across the group's various operations, as agent for various airlines and other service providers, plus revenue and income from other sources. FLT's revenue is, therefore, derived from TTV.

³ Underlying profit before tax is a non-IFRS measure and not subject to review procedures. December 2018 underlying profit before tax excludes \$8,204,000 relating to Flight Centre Global Procurement Network (GPN) wholesale business revenue alignment, \$23,767,000 relating to Olympus Tours impairment and \$2,557,000 relating to AASB 15 transition. December 2017 underlying profit before tax excludes adjustments relating to AASB 15 transition of \$5,000.

DIVIDENDS

	AMOUNT PER SECURITY CENTS	100% FRANKED AMOUNT CENTS
31 DECEMBER 2018		
Interim dividend ⁴	60.0	60.0
Special dividend ⁴	149.0	149.0
30 JUNE 2018		
Interim dividend	60.0	60.0
Final dividend	107.0	107.0

⁴ On 21 February 2019, FLT declared an interim dividend for the period ended 31 December 2018 and a special dividend. The record date for determining entitlements to the dividends is 22 March 2019 and payment date is 12 April 2019.

	DEC 2018 \$	DEC 2017 \$ RESTATED ¹
NET TANGIBLE ASSETS		
Net tangible asset backing per ordinary security	8.71	8.49

CONTROL GAINED OVER ENTITIES

- On 21 September 2018, FLT acquired 100% of Umapped Inc. (Umapped), a Toronto based technology company that provides travel documentation, communication and itinerary management software to the travel industry for an initial cash consideration of \$7,508,000.

ACQUISITIONS SUBSEQUENT TO PERIOD END

- On 1 February 2019, FLT acquired 100% of Casto Travel US LLC (Casto), a well established Californian based travel company for \$20,070,000.
- On 18 February 2019, FLT purchased the remaining 75% of European Travel Service Center, S.L. (ETSC) for \$4,238,000 bringing FLT's shareholding to 100%. ETSC is a European based travel technology company and is the owner and developer of 'chatbot' travel assistance software SAM :] which is used in FLT's corporate business worldwide.

APPENDIX 4D CONTINUED

DETAILS OF JOINT VENTURES AND ASSOCIATES

INVESTMENTS IN JOINT VENTURES	DEC 2018	DEC 2017
Pedal Group Pty Ltd	50.0%	50.0%
Buffalo Tours	-	58.5%
Go Vacation Vietnam Company Limited	51.0%	-

- On 1 January 2018, FLT obtained control of Buffalo Tours (Singapore) Pte Ltd and Buffalo Tours (Hongkong) Limited as a result of a change in the overarching shareholder agreement giving FLT a majority representation on the Board. The shareholding at 1 January 2018 remained at 58.5% (December 2017: 58.5%). As a result of the change in control Buffalo Tours are consolidated into the group's results and are no longer treated as investments in joint ventures.
On 4 July 2018 FLT purchased the remaining 41.5% of Buffalo Tours (Singapore) Pte Ltd and Buffalo Tours (Hongkong) Limited for \$25,074,000 bringing FLT's shareholdings to 100%.
- A 51% shareholding in the tour company Go Vacation Vietnam Company (GVVC) Limited is held by a subsidiary of Buffalo Tours (Singapore) Pte Ltd. As part of the change in control on 1 January 2018, this is now shown as part of the FLT consolidated results as an investment in joint venture. Per the relevant agreements, Buffalo Tours only hold 50% voting rights in GVVC and hence have joint control over the entity's economic activities, and therefore recognise this as an investment in a joint venture.

INVESTMENTS IN ASSOCIATES	DEC 2018	DEC 2017
Ignite Travel Group Limited	49.0%	49.0%
Biblos America LLC	28.8%	24.1%
3mundi	25.0%	25.0%
European Travel Services Centre (ETSC)	25.0%	25.0%

- Biblos America LLC had a reorganisation of shareholdings and an overall reduction in the total number of shares issued resulting in FLT's investment increasing to 28.8% with no additional shares acquired.
- As outlined above, subsequent to period end FLT acquired the remaining 75% of ETSC.

COMPLIANCE STATEMENT

The report is based on accounts which have been reviewed by the auditor of Flight Centre Travel Group Limited. There have been no matters of disagreement and a report of the auditor's review appears in the half-year financial report.

The report should be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by FLT in accordance with the continuous disclosure requirements arising under the *Corporations Act 2001* and *ASX Listing Rules*.

DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of Flight Centre Travel Group Limited (FLT) and the entities it controlled at the end of, or during, the half-year ended 31 December 2018.

DIRECTORS

The following persons were directors of FLT during the half year and up to the date of this report.

G.F. Turner
G.W. Smith
J.A. Eales
R.A. Baker
C. Garnsey

REVIEW OF OPERATIONS AND RESULTS

1H RESULT OVERVIEW

The Flight Centre Travel Group (FLT) has started the 2019 fiscal year (FY19) solidly, with the company achieving record first half (1H) sales and an improved underlying profit before tax (PBT) within its targeted range for the period.

In releasing its accounts today for the six months to December 31 2018, FLT also announced new plans to create further value for shareholders via a fully franked \$1.49 per share special dividend.

The special dividend is in addition to a 60 cents per share fully-franked interim dividend and means that the company will return a total of \$211million to its shareholders.

This record return reflects the FLT board's confidence in:

- The strength of the business and its balance sheet; and
- Its future growth prospects, as it continues to make significant inroads in key markets globally and in key travel sectors

FLT's 1H results again highlight this increasing diversity, with the growth in both sales and profits driven by the corporate travel businesses in Australia and overseas and by FLT's international businesses generally.

This growth more than offset the softer than expected Australian leisure profits while further changes were taking place within the business.

Leisure results in Australia were also impacted by:

- Lower gross margins, resulting from lower attachment and in-store discounting from consultants; and
- Subdued total transaction value (TTV) growth, following network changes during the FY18 2H

Globally, 1H TTV increased by 10% to a record \$11.16billion, a result that exceeded the prior corresponding period's (PCP) record result by more than \$1billion.

All countries, apart from the small corporate travel businesses in Finland, Norway, Sweden and Denmark (Nordics), delivered record TTV as the company continued to surpass the 7% compounding growth target it has set as part of its FY22 business transformation program.

Globally, FLT's corporate travel businesses grew strongly and generated about 37% of 1H TTV (\$4.2billion), compared to 35.6% during the PCP.

Underlying profit before tax (PBT) increased modestly to \$140.4million and was within FLT's targeted range for the period (\$140million-\$150million).

Combined profits from FLT's overseas businesses almost doubled as:

- FLT's businesses in the Americas and Asia both almost quadrupled their underlying FY18 1H profit contributions; and
- The Europe, Middle East and Africa (EMEA) businesses again performed strongly

While underlying PBT increased, statutory PBT decreased from \$139.4million to \$127.4million.

Three items – two non-recurring gains and a non-recurring loss, have been excluded from underlying PBT, specifically:

- A \$23.8million non-cash impairment relating to the Olympus destination management company (DMC)
- A \$2.56million gain on adoption of new revenue accounting standard AASB 15. This relates to the release of lump-sum and touring revenue that was deferred on transition to AASB 15; and
- A \$8.20million gain which has resulted from a revenue alignment change within the global product area. FLT can now recognise leisure override revenue at the time of booking, rather than after the customer has travelled, thanks to system enhancements that allow FLT to accurately calculate and capture the required information. This is now in line with the company's revenue recognition policy.

REVIEW OF OPERATIONS AND RESULTS (CONTINUED)

The company achieved a \$101.1million underlying net profit after tax (NPAT) or a \$85.0million statutory NPAT.

As expected, revenue margin (revenue as a percentage of TTV) decreased.

Ongoing mix changes, specifically the growth in lower revenue margin businesses, contributed to this decrease, along with lower leisure margins in Australia.

Together, the FCM corporate travel business, the leisure online travel agencies and the foreign exchange businesses in Australia, New Zealand and India generated more than one third of global TTV at a combined revenue margin of 6.48%.

Underlying cost margin¹ improvement from 11.6% during the FY18 1H to 11.1% offset the impacts of this revenue margin decrease as FLT made solid progress towards its 10% FY22 target.

This underlying cost margin improvement reflects the company's continued focus on cost containment and also its success in increasing consultant productivity.

Net margin, underlying PBT as a percentage of TTV, decreased during the 1H to 1.26% as the company moved to a business engineering phase within its global transformation program.

CASH, CASH FLOW & DIVIDENDS

In line with normal trading patterns, FLT recorded an operating cash outflow during the 1H and has started to rapidly accumulate cash during the 2H.

This reflects the seasonality within the business, which sees cash accumulate during the company's peak booking months during the second half of a fiscal year, leading to an operating cash inflow during the six months to June 30.

This cash is then paid to suppliers after peak travel seasons during the following 1H, leading to an operating cash outflow over the six months to December 31.

Over the 1H, the company recorded a \$195.9million operating cash outflow, compared to a \$102.8million outflow during the PCP.

The year-on-year movement was predominantly driven by:

- Timing factors, specifically the airline payment cycle (BSP); and
- Increased tax instalment payments as a result of the company's strong performance in the US, Canada and the UK.

At December 31 2018, FLT had a \$1,092million global cash and investment portfolio, which included \$394million in company (general) cash and company investments.

Debt totalled \$35.8million, giving FLT a \$358.2million positive net debt position, compared to \$376.9million during the PCP.

FLT has again used company cash to fund small but strategically important acquisitions.

During the 1H, FLT acquired Toronto-based technology company Umapped and secured a 10-year lease on the beach-front Camakila hotel in Bali.

The company also agreed to acquire US corporate travel business Casto and formally completed the acquisition early in the 2H.

In light of the company's strong balance sheet, FLT's directors today declared a fully franked 60 cents per share interim dividend, payable on April 12, 2019 to shareholders registered on March 22, 2019.

The total interim dividend payment - \$60million - represents a 60% return of underlying NPAT to shareholders and is in addition to the special dividend, which is payable to shareholders registered on March 22, 2019.

FLT's directors believe the company is well equipped to fund future growth, through its consistent cash generation over a full year and its access to additional debt facilities, and currently expect to maintain the dividend policy of returning 50-60% of NPAT to shareholders, subject to the business's anticipated needs at the time.

¹ Underlying cost margin excludes touring costs which were previously netted against revenue.

SEGMENTED RESULTS

FLT's FY19 results to date have followed similar trends to FY18, with growth being driven by the corporate travel businesses in Australia and overseas and by FLT's international businesses generally.

This is in line with expectations given:

- The company's growth trajectory and success in several large markets, including the USA, which are now making material contributions to group earnings
- Its expanding global corporate travel footprint, which is delivering scalable organic growth; and
- The ongoing changes that are taking place within its leisure businesses, particularly in Australia

REVIEW OF OPERATIONS AND RESULTS (CONTINUED)

These changes, including new initiatives geared towards improving 2H results, have been outlined in the Strategic Update and Outlook sections of this report.

In all geographic segments, the company generated record TTV, with 52% of the group result being generated outside Australia.

Underlying PBT also increased strongly in all geographic segments, apart from Australia/New Zealand.

The decrease in Australia/New Zealand was predominantly driven by the Australian leisure business, with the New Zealand operation and the Australian corporate travel business both delivering record profits.

In the EMEA segment, FLT achieved 13% PBT growth, as TTV increased by 12%.

The UK business again performed strongly, despite the uncertainty surrounding Brexit, and became FLT's 3rd country to surpass \$1billion in 1H TTV after Australia and the USA. Growth was predominantly driven by the corporate businesses, with FCM recording 32% TTV growth.

The UK retail business, which has transitioned to a long-haul, tailor-made holidays specialist, recorded solid margin growth, as sales of the business's manufactured Journeys and Escapes package holiday ranges increased.

On Continental Europe, FLT continued to develop its footprint.

Its investment in the FCM Germany start-up led to an \$1.1million loss, but the new business generated more than \$23million in 1H TTV and performed promisingly.

In the United Arab Emirates, the corporate business performed strongly, delivering 192% profit growth.

The South Africa business delivered another healthy profit, with the FCM corporate business and Flight Centre Associates (FCA), the company's independent agent model, among the best performing brands.

FLT's Americas businesses made a material and sustainable contribution to group earnings and TTV during the 1H.

Underlying PBT increased from \$8.3million during the PCP to \$32.6million during the FY19 1H, as the company's growth trajectory accelerated.

TTV was \$2.5billion, which represented 22% of the group's 1H sales and an 18% increase on the PCP.

In the USA, the corporate travel business again grew strongly, along with the StudentUniverse online travel agency business, which is now one of two online brands that ranks among FLT's top-10 businesses by TTV.

The company also recorded further turnaround in its Liberty leisure and GOGO wholesale businesses during their seasonally softer trading periods.

The Canada business built on its FY18 success and recorded further growth in both TTV and sales.

In the Asia segment, TTV and profit increased strongly.

The China, Singapore and Malaysia businesses are now predominantly corporate travel focussed and are delivering solid growth, while the more diverse India business is growing across a number of key sectors, including leisure, corporate, wholesale and foreign exchange.

India is now FLT's sixth largest country by TTV and is on track to deliver more than \$1billion in TTV during FY19.

FLT's Travel Experiences Network (TEN) businesses are part of the "Other" segment in FLT's accounts, along with some support and global businesses.

The TEN businesses include:

- Tour operators Top Deck Travel and Back-Roads Touring
- Hotel management company BHMA; and
- DMCs Buffalo Tours and Olympus

The established touring businesses delivered a strong 1H profit, with Top Deck on track to deliver its best profit result in three years.

As expected, BHMA contributed a modest loss during an expansion phase that has seen the business grow its portfolio to 23 properties in Thailand, Vietnam and Bali. This includes the recent addition, the Camakila Hotel in Bali.

The DMCs delivered mixed trading results, with Asia-based Buffalo contributing a reasonable profit and Mexico-based Olympus a trading loss as the business has been negatively impacted by the loss of key customers, a decline in local Mexico sales and a change in local management following the departure of two key accounts. FLT has written down its Olympus investment and has incurred a \$23.8million non-cash impairment charge in its 1H results.

REVIEW OF OPERATIONS AND RESULTS (CONTINUED)

The one-off \$8.2million gain which resulted from the revenue alignment change within the global product area has also been recorded in the Other segment.

Elsewhere in the company, the joint venture cycle business, which includes the 99 Bikes retail chain and wholesaler Advance Traders Australia, performed strongly and delivered a record profit.

STRATEGIC UPDATE

FLT is now in the second year of a five-year business transformation program.

Under this program, three specific transformation targets are in place through to the end of FY22:

1. 7% compounding annual TTV growth
2. A 10% underlying cost margin (excluding touring cost of sales); and
3. A return to a 2% net margin

After a clean-up phase during year-one, which saw the company remove or pivot various loss-making businesses, FLT has now entered a two-year business engineering phase.

This will take place across the company's three core pillars of corporate travel, leisure travel and in-destination travel experiences and will see FLT invest in and fix key businesses, ahead of a period of more rapid growth during years four and five.

Key objectives during this phase include:

- Having famous and distinctive brands that deliver a high quality and consistent customer experience across these three pillars; and
- Developing productive and efficient business models that deliver scalable growth (sustainable revenue and cost structures)

In corporate travel, various transformation initiatives are underway as the company aims to build on its success in a high growth sector.

These initiatives include:

- Globalisation of key functions to increase capability and lower costs
- Digital and technical investment
- Integrated financial solutions
- Vertical integration in the product area; and
- Developing a Workplace of the Future for its people and to meet changing market dynamics

In the leisure sector, FLT is developing three business streams targeting the mass market, premium travellers and the youth sector.

Offerings vary throughout the world, with the company having a leading mass market position in Australia, New Zealand and South Africa and a more specialised position in the UK, USA, Canada and parts of Asia.

In Australia, the leisure transformation initiatives that are currently underway focus on:

- FCB 2.0, a tailored program for the Flight Centre brand
- New and emerging models, including independent contractors and affiliates, online and flash sale or vouchers; and
- Productivity and people, which includes specialisation, flexibility and retention programs and efficiency

The development of the FCB 2.0 program has been led by FLT chief digital officer Atle Skalleberg and the program focuses on improving Flight Centre brand's performance by developing or introducing:

- Lower cost self-service channels and capabilities, such as apps and websites
- Sales operations technologies with increased automation levels, including lead management tools like RedConnect, which is contributing to the strong turnaround in leisure results and productivity in the Americas
- A new membership program that will reduce customer acquisition costs, use data to personalise marketing and reduce friction in the consumer buying process
- Integrated trip management technologies like Umapped
- Improved marketing automation and retargeting systems and workflows; and
- Customer relationship management technologies

In the product and TEN areas, FLT is also transforming its operations. Product-related initiatives include:

- Globalisation of product and distribution
- Vertical integration
- Air product and distribution (including New Distribution Capability); and
- Pricing and yield management

REVIEW OF OPERATIONS AND RESULTS (CONTINUED)

Within TEN, FLT is working to create a stronger DMC offering, with a global brand, platform and sales team to increase sales within the company and via other groups.

The company is also pivoting the BHMA hotel offering to take on properties, like Camakila in Bali, that are better suited to FLT's customer base.

OUTLOOK

FLT is currently tracking towards the bottom of its guidance range for the full year (underlying PBT between \$390million and \$420million), largely as a result of the volatility it has experienced in Australia and within the leisure business in particular during the 1H.

This volatility has continued early in the 2H and market conditions remain challenging heading in to the leisure business's busiest trading months.

FLT will continue to monitor this volatility, along with growth overseas, to assess how group results are tracking relative to earnings guidance.

In addition to an apparent slowdown in the general trading cycle during the second quarter, factors that adversely impacted leisure results in Australia during the 1H included:

- Lower margins
- The significant change and disruption that has taken place within the business over the past two years
- Investments in systems, security and people, which has included a new wage model (1H cost of circa \$5million) and rapid upstaffing, which saw the company recruit a record number of new sales consultants; and
- Network changes, including the 90 shop closures during the FY18 2H and brand mergers undertaken as part of the Rebrand & Grow strategy

The company will implement additional strategies during the 2H with a view to addressing these issues and complementing the longer term initiatives.

These shorter term strategies include:

- Expansion in models and sectors that are currently performing well, including specialist Flight Centre businesses, online and home-based agents
- Building a stronger network by closing or relocating poorly performing or poorly located shops and by opening new shops in prime locations
- Lowering costs by slowing recruitment in a low revenue growth trading climate and after the record 1H of people growth and by reducing head office overheads; and
- Improving margins through better attachment, centralised pricing, sales of company-owned products and through a more disciplined sales approach

Globally, 1H trends are currently expected to continue, with FY19 results likely to be driven by the corporate travel businesses globally and by FLT's international businesses in general.

Corporate growth will, in part, be fuelled by new accounts won during the 1H. These wins amount to about \$600million in projected annual spend globally for the FCM business alone.

FLT's international businesses have started the 2H with strong momentum; following their record breaking 1H contributions, with the UK operation recording its largest ever monthly profit in January 2019 despite the ongoing Brexit uncertainty.

The company expects to make further progress towards its FY22 business transformation goals, relating to TTV growth, cost margin and net margin, as the year progresses.

TTV has, to date, exceeded the 7% annual growth target and underlying cost margins have again improved during the 1H.

The group's net margin is typically stronger during the 2H and is expected to increase in the future as the transformation program gains momentum and helps drive further growth.

While FLT has today announced plans to return surplus cash on its balance sheet to shareholders, it will continue to invest in growth initiatives.

FY19 capital expenditure is likely to be in the order of \$100million and will again be weighted towards system enhancements.

The company will also consider further merger and acquisition opportunities to complement organic growth, to fast-track growth in new sectors or to deliver new tools that enhance productivity or the customer experience.

DIRECTORS' REPORT CONTINUED

MATTERS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

ACQUISITIONS

CASTO TRAVEL US LLC (CASTO)

On 1 February 2019, FLT purchased 100% of Casto Travel US LLC, for \$20,070,000. Casto is a leading well established corporate and leisure travel company based in San Jose, California serving the San Francisco Bay Area since 1974. Casto was primarily acquired to strengthen FLT's corporate presence on the US West Coast, a market where we have previously had a relatively small presence.

EUROPEAN TRAVEL SERVICE CENTER, S.L. (ETSC)

On 18 February 2019, FLT purchased the remaining 75% of European Travel Service Center, S.L. for \$4,238,000 bringing FLT's shareholding to 100%. ETSC is a European based travel technology company and is the owner and developer of 'chatbot' travel assistance software SAM :] which is used in FLT's corporate business worldwide. The acquisition gives FLT control over the development roadmap and strategic direction of the software offering.

DEBT FACILITY

On 20 February 2019, FLT entered into a series of bilateral debt facilities totalling \$250,000,000 to provide additional liquidity to fund potential future acquisitions. The facilities mature in three years time. No amounts have been drawn down under the facilities as at the date of this report (as the facilities remain subject to the satisfaction of customary conditions precedent).

DIVIDENDS

FLT's directors today declared a 60.0 cents per share fully franked dividend payable on 12 April 2019 to shareholders registered on 22 March 2019. This represents a 71.1% return of after-tax profit to shareholders (59.8% of underlying NPAT), in line with FLT's current policy of returning 50-60% of after-tax profit, subject to the business's needs. The interim dividend paid for the half-year ended 31 December 2017 was 60.0 cents per share.

FLT's directors have today also declared a special dividend of 149 cents per share fully franked payable on 12 April 2019 to shareholders registered on 22 March 2019.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 11.

ROUNDING OF AMOUNTS

The company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding-off" of amounts in the directors' report and financial statements. Amounts in the directors' report and financial statements have been rounded off to the nearest thousand dollars in accordance with that Class Order.

This report is made in accordance with a resolution of directors.



G.F. Turner
Director

21 February 2019

AUDITOR'S INDEPENDENCE DECLARATION



Ernst & Young
111 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
ey.com/au

Auditor's Independence Declaration to the Directors of Flight Centre Travel Group Limited

As lead auditor for the review of Flight Centre Travel Group Limited for the half-year ended 31 December 2018, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Flight Centre Travel Group Limited and the entities it controlled during the financial period.

Ernst & Young

Ric Roach
Partner
21 February 2019

STATEMENT OF PROFIT OR LOSS

	NOTES	HALF-YEAR ENDED 31 DECEMBER	
		2018 \$'000	2017 \$'000 RESTATED ¹
Revenue	4	1,461,509	1,360,307
Other income	5	19,965	13,275
Share of profit of joint ventures and associates		1,698	1,331
Expenses:			
Employee benefits		(758,301)	(717,611)
Sales and marketing		(94,526)	(101,044)
Rental expense relating to operating leases		(81,026)	(80,883)
Tour operations - cost of sales		(93,118)	(58,066)
Amortisation and depreciation		(40,987)	(38,623)
Finance costs		(10,970)	(11,452)
Impairment charge	7	(23,767)	-
Other expenses	6	(253,072)	(227,800)
Profit before income tax expense		127,405	139,434
Income tax expense		(42,381)	(37,134)
Profit after income tax expense		85,024	102,300
Profit attributable to:			
Company owners		84,797	102,235
Non-controlling interests		227	65
		85,024	102,300
Earnings per share for profit attributable to the ordinary equity holders of the company:		CENTS	CENTS RESTATED¹
Basic earnings per share	14	84.1	101.3
Diluted earnings per share	14	83.6	100.8

¹ Refer to note 19 for details regarding the restatements for changes in accounting policies on adoption of AASB 15.

The above statement of profit or loss should be read in conjunction with the accompanying notes.

STATEMENT OF OTHER COMPREHENSIVE INCOME

	HALF-YEAR ENDED 31 DECEMBER	
	2018 \$'000	2017 \$'000 RESTATED ¹
Profit after income tax expense	85,024	102,300
OTHER COMPREHENSIVE INCOME:		
Items that may be reclassified to profit or loss		
Changes in the fair value of financial assets at FVOCI	(40)	272
Gain/(loss) on cash flow hedges	(926)	775
Net exchange differences on translation of foreign operations	18,342	(1,214)
Income tax on items of other comprehensive income	255	(72)
Total other comprehensive income	17,631	(239)
Total comprehensive income	102,655	102,061
Attributable to:		
Company owners	102,864	101,996
Non-controlling interests	(209)	65
	102,655	102,061

¹ Refer to note 19 for details regarding the restatements for changes in accounting policies on adoption of AASB 15.

The above statement of other comprehensive income should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

	NOTES	HALF-YEAR ENDED 31 DECEMBER	
		2018 \$'000	2017 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers ¹		1,519,323	1,415,872
Payments to suppliers and employees ¹		(1,648,215)	(1,467,462)
Royalties received		169	389
Interest received		11,685	9,635
Interest paid		(11,665)	(12,981)
Income taxes paid		(67,203)	(48,272)
Net cash (outflow) from operating activities		(195,906)	(102,819)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries, net of cash acquired	2d	(7,498)	(66,563)
Acquisition of non-controlling interests in subsidiaries	2b	(25,074)	-
Acquisition of joint ventures and associates		-	(908)
Payments for property, plant and equipment		(29,771)	(26,269)
Payments for intangibles		(20,952)	(16,515)
Payments for the purchase of financial asset investments		(9,457)	(655)
Proceeds from sale of financial asset investments		29,000	-
Dividends received from joint ventures and associates		243	518
Loans repaid by external parties		200	-
Loans repaid by related parties		112	3,017
Net cash (outflow) from investing activities		(63,197)	(107,375)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		16,779	125,043
Repayment of borrowings		(18,382)	(89,989)
Proceeds from issue of shares	13	754	617
Payments for purchase of treasury shares	13	(6,265)	(5,644)
Proceeds from allocation of treasury shares	13	2,097	2,322
Distributions paid to non-controlling interests		(95)	-
Dividends paid to company owners	12	(108,153)	(94,990)
Net cash (outflow) from financing activities		(113,265)	(62,641)
Net (decrease) in cash held		(372,368)	(272,835)
Cash and cash equivalents at the beginning of the half year		1,272,992	1,281,648
Effects of exchange rate changes on cash and cash equivalents		4,352	1,330
Cash and cash equivalents at end of the half year	8	904,976	1,010,143

¹ Including GST

The above statement of cash flows should be read in conjunction with the accompanying notes.

BALANCE SHEET

ASSETS		AS AT 31 DECEMBER 2018 \$'000	AS AT 30 JUNE 2018 \$'000 RESTATED ¹
Current assets	NOTES		
Cash and cash equivalents	8	906,111	1,272,992
Financial asset investments	9	186,088	204,148
Trade receivables		460,222	525,745
Contract assets	10	331,855	321,991
Other assets		90,156	96,990
Current tax receivables		19,576	8,479
Inventories		2,797	1,625
Other financial assets		498	1,028
Derivative financial instruments		10,513	12,570
Total current assets		2,007,816	2,445,568
Non-current assets			
Property, plant and equipment		246,530	247,554
Intangible assets	2c	625,272	612,371
Other assets		11,653	3,753
Investments in joint ventures and associates		35,006	38,970
Deferred tax assets		68,394	69,592
Other financial assets		7,656	7,227
Total non-current assets		994,511	979,467
Total assets		3,002,327	3,425,035
LIABILITIES			
Current liabilities			
Trade and other payables		1,137,830	1,505,573
Deferred revenue		64,028	74,748
Contingent consideration	3	24,713	10,627
Borrowings		35,189	34,846
Provisions		51,569	48,663
Current tax liabilities		5,284	20,369
Derivative financial instruments		3,980	3,995
Total current liabilities		1,322,593	1,698,821
Non-current liabilities			
Trade and other payables		59,224	60,427
Deferred revenue		52,035	55,721
Contingent consideration	3	2,930	15,825
Borrowings		578	652
Provisions		44,000	40,921
Deferred tax liabilities		14,728	12,077
Total non-current liabilities		173,495	185,623
Total liabilities		1,496,088	1,884,444
Net assets		1,506,239	1,540,591
EQUITY			
Contributed equity	13	404,777	404,023
Treasury shares	13	(15,197)	(10,934)
Reserves		30,196	34,160
Retained profits		1,085,270	1,108,626
Equity attributable to the company owners		1,505,046	1,535,875
Non-controlling interests		1,193	4,716
Total equity		1,506,239	1,540,591

¹ Refer to note 19 for details regarding the restatements for changes in accounting policies on adoption of AASB 15.

The above balance sheet should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

		FOR THE PERIOD ENDED 31 DECEMBER							
NOTES	CONTRIBUTED EQUITY \$'000	TREASURY SHARES \$'000	RESERVES \$'000	RETAINED PROFITS \$'000	TOTAL \$'000	CONTROLLING INTEREST \$'000	NON-CONTROLLING INTEREST \$'000	TOTAL \$'000	
	BALANCE AT 1 JULY 2017 AS ORIGINALLY PRESENTED								
	Accounting policy change	19	402,759	(1,801)	12,764	1,015,033	1,428,755	-	1,428,755
	Restated total equity as at 1 July 2017		402,759	(1,801)	12,764	1,000,678	1,414,400	(65)	1,414,335
	Profit for the half year as originally presented		-	-	-	102,158	102,158	-	102,158
	Accounting policy change	19	-	-	-	77	77	65	142
	Profit for the half year restated¹		-	-	-	102,235	102,235	65	102,300
	Other comprehensive income		-	-	(239)	-	(239)	-	(239)
	Total comprehensive income for the half year		-	-	(239)	102,235	101,996	65	102,061
	Transactions with owners in their capacity as owners:								
	Acquisition reserve		-	-	(4,749)	-	(4,749)	-	(4,749)
	Employee share-based payments		598	-	4,954	-	5,552	-	5,552
	Treasury shares	13	-	(3,052)	-	-	(3,052)	-	(3,052)
	Dividends provided for or paid	12	-	-	-	(94,990)	(94,990)	-	(94,990)
	Balance at 31 December 2017		403,357	(4,853)	12,730	1,007,923	1,419,157	-	1,419,157
	BALANCE AT 1 JULY 2018 AS ORIGINALLY PRESENTED								
	Accounting policy change - opening retained profits	19	404,023	(10,934)	34,160	1,122,334	1,549,583	4,859	1,554,442
	Accounting policy change - prior period profits	19	-	-	-	(14,355)	(14,355)	(65)	(14,420)
	Restated total equity as at 1 July 2018		404,023	(10,934)	34,160	1,108,626	1,535,875	4,716	1,540,591
	Profit for the half year		-	-	-	84,797	84,797	227	85,024
	Other comprehensive income		-	-	18,067	-	18,067	(436)	17,631
	Total comprehensive income for the half year		-	-	18,067	84,797	102,864	(209)	102,655
	Transactions with owners in their capacity as owners:								
	Acquisition reserve		-	-	(21,936)	-	(21,936)	(3,219)	(25,155)
	Employee share-based payments	13	754	-	(95)	-	659	-	659
	Treasury shares	13	-	(4,263)	-	-	(4,263)	-	(4,263)
	Dividends provided for or paid	12	-	-	-	(108,153)	(108,153)	(95)	(108,248)
	Balance at 31 December 2018		404,777	(15,197)	30,196	1,085,270	1,505,046	1,193	1,506,239

¹ Refer to note 19 for details regarding the restatements for changes in accounting policies on adoption of AASB 15. The above statement of changes in equity should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

SIGNIFICANT MATTERS IN THE CURRENT REPORTING PERIOD

The following significant events and transactions occurred during the half-year ended 31 December 2018:

ACQUISITIONS

- On 21 September 2018, FLT acquired 100% of Umapped Inc. (Umapped), a Toronto based technology company that provides travel documentation, communication and itinerary management software to the travel industry for an initial cash consideration of \$7,508,000.
- On 4 July 2018, FLT acquired the remaining 41.5% of Buffalo Tours (Singapore) Pte Ltd and Buffalo Tours (Hongkong) Limited for cash consideration of \$25,074,000. The investment increases FLT's ownership to 100% of both subsidiaries.

Immediately prior to the transaction the non-controlling interest was carried at \$3,138,000. FLT recognised the difference between the carrying value of the non-controlling interests and the fair value of the consideration directly in acquisition reserves.

Refer to note 2 for further details of these acquisitions.

AASB 15 INITIAL APPLICATION

- FLT has adopted AASB 15 *Revenue from Contracts with Customers* with an initial application date of 1 July 2018 utilising the full retrospective transition approach. Comparative information has been restated throughout the financial statements. The adoption of AASB 15 has resulted in a net decrease in retained earnings at 1 July 2017 of \$14,420,000 and an increase in H1'18 profit before tax of \$5,000. Refer to note 19 for further information.

UNDERLYING ADJUSTMENTS

- Revenue from the provision of travel as agent includes a one-off gain for the half-year reporting period of \$8,204,000 related to the Flight Centre Global Procurement Network (GPN) wholesale business. The gains have been brought about by system improvements which have allowed FLT to accurately calculate and capture a component of leisure volume incentives within the GPN business at the time of booking, rather than after the consumer has travelled, in line with the FLT policy (as detailed in note 4).
- Market guidance¹ provided at the AGM in October 2018 excluded the impact of AASB 15. For the purposes of comparability to this guidance, the impact of AASB 15 adoption is excluded as an underlying adjustment. The impact of AASB 15 was an increase in H1'19 profit before tax of \$2,557,000. Refer to note 19 for further information.
- FLT recorded a non-cash write-down to the Olympus Tours goodwill of \$23,767,000. The Olympus Tours business did not perform to expectations. Refer to note 7 for further details.

MATTERS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

- On 1 February 2019, FLT purchased 100% of Casto Travel US LLC (Casto), a well established California based travel company for \$20,070,000. Refer to note 17 for further details.
- On 18 February 2019, FLT purchased the remaining 75% of European Travel Service Center, S.L. (ETSC) for \$4,238,000 bringing FLT's shareholding to 100%. ETSC is a European based travel technology company and is the owner and developer of 'chatbot' travel assistance software SAM :] which is used in FLT's corporate business worldwide. The acquisition gives FLT control over the development roadmap and strategic direction of the software offering. Refer to note 17 for further details.
- On 20 February 2019, FLT entered into a series of bilateral debt facilities totalling \$250,000,000 to provide additional liquidity to fund potential future acquisitions. The facilities mature in three years time. No amounts have been drawn down under the facilities as at the date of this report (as the facilities remain subject to the satisfaction of customary conditions precedent).
- On 21 February 2019, the board declared a special dividend of 149 cents per share fully franked payable on 12 April 2019 to shareholders registered on 22 March 2019, to be paid out of existing company general cash.

¹ Market guidance is non-IFRS financial information and not subject to review procedures.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 SEGMENT INFORMATION

(A) BASIS OF SEGMENTATION AND MEASUREMENT

The basis of segmentation and measurement of segment profit or loss has not changed since the 30 June 2018 annual financial statements except for the application of AASB 15 *Revenue from Contracts with Customers*, refer to note 4 for details of revenue policies and note 19 for further details on transition adjustments.

(B) SEGMENT INFORMATION PRESENTED TO THE BOARD OF DIRECTORS AND GLOBAL TASK FORCE

The segment information provided to the board and global task force for the reportable segments for the half-years ended 31 December 2018 and 31 December 2017 is shown in the following tables:

31 DECEMBER 2018	AUSTRALIA & NZ \$'000	AMERICAS \$'000	EMEA \$'000	ASIA \$'000	OTHER SEGMENT ² \$'000	TOTAL \$'000
SEGMENT INFORMATION						
TTV ¹	5,982,129	2,455,543	1,594,634	885,061	237,817	11,155,184
Agency revenue from the provision of travel	686,697	276,436	204,286	43,302	25,042	1,235,763
Principal revenue from the provision of travel	50,982	11,908	3,278	93	1,231	67,492
Revenue from tour operations	-	-	-	-	135,052	135,052
Revenue from other businesses	9,043	2,251	3,498	2,637	5,773	23,202
Total revenue from contracts with customers	746,722	290,595	211,062	46,032	167,098	1,461,509
Statutory EBITDA	102,582	39,208	43,359	6,823	(24,665)	167,307
Depreciation and amortisation	(22,001)	(7,328)	(6,849)	(1,434)	(3,375)	(40,987)
Statutory EBIT	80,581	31,880	36,510	5,389	(28,040)	126,320
Interest income	3,057	3,606	5,290	422	(321)	12,054
BOS interest expense	(8,292)	(1,248)	(1,403)	-	1,331	(9,612)
Other interest expense	(1,293)	(1,644)	(1,153)	(2,013)	4,746	(1,357)
Net profit before tax and royalty	74,053	32,594	39,244	3,798	(22,284)	127,405
Royalty	6,769	-	(6,769)	-	-	-
Net profit before tax and after royalty	80,822	32,594	32,475	3,798	(22,284)	127,405
RECONCILIATION OF STATUTORY EBIT TO ADJUSTED EBIT						
Statutory EBIT	80,581	31,880	36,510	5,389	(28,040)	126,320
Interest income ³	655	27	330	-	6,357	7,369
BOS interest expense	(8,292)	(1,248)	(1,403)	-	1,331	(9,612)
Net FX (gains) / losses on intercompany loans	-	-	(2)	-	(1,515)	(1,517)
GPN revenue alignment	-	-	-	-	(8,204)	(8,204)
Olympus Tours impairment	-	-	-	-	23,767	23,767
Impact of AASB 15 adjustments ⁴	(927)	-	-	-	(1,630)	(2,557)
Other non-material items	(25)	-	28	(867)	(3,173)	(4,037)
Adjusted EBIT / Segment Result	71,992	30,659	35,463	4,522	(11,107)	131,529

¹ TTV is non-IFRS financial information and not subject to review procedures.

² The results of the new acquisition Umapped and Buffalo Tours are shown in the Other segment.

³ Land wholesale interest only.

⁴ Refer to note 19 for details regarding the restatements for changes in accounting policies on adoption of AASB 15.

1 SEGMENT INFORMATION (CONTINUED)

31 DECEMBER 2017 - RESTATED ¹	AUSTRALIA & NZ ² \$'000	AMERICAS ² \$'000	EMEA ² \$'000	ASIA \$'000	OTHER SEGMENT ² \$'000	TOTAL \$'000
SEGMENT INFORMATION						
TTV ³	5,891,456	2,087,902	1,420,815	637,088	116,626	10,153,887
Agency revenue from the provision of travel	703,036	236,282	189,783	40,590	15,585	1,185,276
Principal revenue from the provision of travel	54,252	9,087	2,610	91	2,038	68,078
Revenue from tour operations	-	-	-	-	85,914	85,914
Revenue from other businesses	7,978	1,981	1,843	3,154	6,083	21,039
Total revenue from contracts with customers	765,266	247,350	194,236	43,835	109,620	1,360,307
Statutory EBITDA	135,687	16,116	38,445	3,455	(16,249)	177,454
Depreciation and amortisation	(22,877)	(6,713)	(5,715)	(1,318)	(2,000)	(38,623)
Statutory EBIT	112,810	9,403	32,730	2,137	(18,249)	138,831
Interest income	2,831	1,209	4,224	99	3,692	12,055
BOS interest expense	(9,501)	(1,018)	(1,109)	-	1,627	(10,001)
Other interest expense	(1,819)	(1,281)	(984)	(1,228)	3,861	(1,451)
Net profit before tax and royalty	104,321	8,313	34,861	1,008	(9,069)	139,434
Royalty	7,368	-	(7,368)	-	-	-
Net profit before tax and after royalty	111,689	8,313	27,493	1,008	(9,069)	139,434
RECONCILIATION OF STATUTORY EBIT TO ADJUSTED EBIT						
Statutory EBIT	112,810	9,403	32,730	2,137	(18,249)	138,831
Interest income ⁴	630	40	269	-	5,825	6,764
BOS interest expense	(9,501)	(1,018)	(1,109)	-	1,627	(10,001)
Net FX (gains) / losses on intercompany loans	-	-	-	-	508	508
Impact of AASB 15 adjustments ¹	1,595	-	-	-	(1,600)	(5)
Adjusted EBIT / Segment Result	105,534	8,425	31,890	2,137	(11,889)	136,097

¹ Refer to note 19 for details regarding the restatements for changes in accounting policies on adoption of AASB 15.

² The results of the new acquisitions and investments are shown in the following segments: Travel Partners, Executive Travel Limited (ETL) and Travel Managers Group (TMG) in the Australia & NZ segment, LDV in the Americas segment, ETSC investment in associate in the EMEA segment and BHMA and Olympus Tours in the Other segment.

³ TTV is non-IFRS financial information and not subject to review procedures.

⁴ Land wholesale interest only.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2 BUSINESS COMBINATIONS

(A) CURRENT YEAR ACQUISITION

Umapped

On 21 September 2018, FLT acquired 100% of Umapped Inc., a Toronto based technology company that provides travel documentation, communication and itinerary management software to the travel industry for an initial cash consideration of \$7,508,000.

The acquisition enhances FLT's web and mobile services to deliver upgraded documentation, better templates and seamless, real-time communication between consultants and travel customers.

The goodwill represents the synergies that the software will bring to FLT such as productivity improvements, conversion improvements and the ability to cross sell other FLT products/offering.

The initial accounting for the business combination is provisional.

Details of the purchase consideration, the provisional net assets acquired and provisional goodwill are as follows:

I. PURCHASE CONSIDERATION, NET ASSETS AND GOODWILL

	NOTE	AS AT ACQUISITION DATE \$'000
Purchase Consideration		
Cash consideration		7,508
Contingent consideration	3a	4,789
Total purchase consideration		12,297
Assets and liabilities acquired at fair value		
Cash and cash equivalents		10
Trade and other receivables		101
Prepayments		19
Property, plant and equipment		19
Intangible assets - software	2c	7,768
Trade and other payables		(175)
Deferred tax liabilities		(2,058)
Net identifiable assets and liabilities acquired		5,684
Goodwill arising on acquisition	2c	6,613
		12,297
II. PURCHASE CONSIDERATION – CASH OUTFLOW		
Cash consideration		7,508
Less: balances acquired		(10)
Total cash outflow - investing activities		7,498

2 BUSINESS COMBINATIONS (CONTINUED)

III. REVENUE AND PROFIT CONTRIBUTION

Since acquisition, Umapped has contributed \$92,000 revenue and a loss of \$157,000 for the half-year ended 31 December 2018.

Had the acquisition occurred on 1 July 2018, revenue and profit or loss contribution for the half-year ended 31 December 2018 would have been \$247,000 and \$383,000 loss respectively.

Umapped is reported within the Other segment (note 1).

IV. ACQUISITION COSTS

Acquisition-related costs of \$333,000 have been recognised in the statement of profit or loss (other expenses) and in operating cash flows in the statement of cash flows (payments to suppliers and employees).

(B) PRIOR YEAR ACQUISITIONS

The purchase price accounting for Travel Managers Group (TMG) and Executive Travel Limited (ETL) have been finalised with no significant changes.

BUFFALO TOURS

On 4 July 2018, FLT purchased the remaining 41.5% of the issued share capital of Buffalo Tours (Singapore) Pte Ltd and Buffalo Tours (Hongkong) Limited for cash consideration of \$25,074,000. The investment increases FLT's ownership to 100% of both subsidiaries.

Immediately prior to the transaction the non-controlling interest was carried at \$3,138,000. FLT recognised the difference between the carrying value of the non-controlling interests and the fair value of the consideration directly in acquisition reserves.

(C) RECONCILIATION OF INTANGIBLE ASSETS MOVEMENTS

	NOTES	GOODWILL \$'000	BRAND NAMES, LICENCES AND CUSTOMER RELATIONSHIPS \$'000	SOFTWARE \$'000	TOTAL \$'000
Balance at 1 July 2018		485,598	19,215	107,558	612,371
Additions		-	3	20,949	20,952
Acquisitions	2a	6,613	-	7,768	14,381
Disposals		-	-	(58)	(58)
Amortisation		-	(682)	(8,505)	(9,187)
Impairment charge		(23,767)	-	-	(23,767)
Exchange differences		8,840	622	1,118	10,580
Balance at 31 December 2018		477,284	19,158	128,830	625,272

(D) RECONCILIATION TO CASH FLOW STATEMENT

	NOTES	\$'000
Acquisition of subsidiary - net cash outflow	2a	7,498
Total outflow of cash - investing activities		7,498

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(A) FAIR VALUE HIERARCHY

There have been no changes to the classification of financial instruments within the fair value hierarchy from 30 June 2018. All financial instruments are stated at their carrying amount, which approximates fair value with the exception of debt securities measured at fair value through other comprehensive income (FVOCI). The valuation techniques of financial instruments are described below:

DEBT SECURITIES

Refer to note 9 for valuation techniques of financial asset investments.

DERIVATIVE FINANCIAL INSTRUMENTS

Forward foreign exchange contracts are measured at fair value, which is based on observable forward foreign exchange rates and the respective currencies' yield curves, as well as the currency basis spreads between the respective currencies. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument to which hedge accounting is applied. Changes in fair value for derivative instruments that do not qualify for hedge accounting are recognised immediately in the statement of profit or loss.

The forward foreign exchange contracts are classified as Level 2 (2018: Level 2) under the AASB 13 Fair value measurement hierarchy, based on the valuation technique described above.

CONTINGENT CONSIDERATION

Contingent consideration is recognised in relation to the acquisitions listed below. FLT has determined that it is classified as Level 3 (2018: Level 3) under the AASB 13 Fair value measurement hierarchy as the main valuation inputs outlined below are unobservable.

Any changes in the fair value of these liabilities are recorded through other income, finance costs or other expenses in the statement of profit or loss.

The put option liabilities that exist, outlined for each company below, have been recognised as a financial liability and in the acquisition reserve of the parent entity.

Top Deck Tours Limited (TDT)

The financial liability related to the put option for TDT (\$4,670,000) has been recorded as part of current contingent consideration as it is now available to exercise at either parties' discretion. The potential undiscounted amount of this liability is calculated as the higher of a multiple of the probability-adjusted EBITDA or a minimum amount payable (floor price). The expected cash flows are currently based on the floor price of \$4,670,000.

AVMIN

The financial liability related to the put option for AVMIN (\$1,188,000) has been recorded as part of non-current contingent consideration. The potential undiscounted amount of this liability has been estimated as the value of future expected cash flows for the settlement of the put option for AVMIN. The expected cash flows are based on a multiple of the probability-adjusted EBITDA of between \$468,000 and \$501,000 at the expected date of exercise in FY20.

Ignite Travel Group

The financial liability related to the earn out payment for Ignite (\$822,000) has been recorded as part of current contingent consideration. The potential undiscounted amount payable per the share sale agreement is between \$nil and \$822,000. The calculation is based on a multiple of the estimated final audited 30 June 2019 consolidated EBITDA.

Travel Tour Groups India (TTG)

The amount payable for the TTG acquisition (\$2,949,000), has been established through an agreement reached with the previous owner in December 2018 to complete the business transfer through a cash sale rather than the issue of equity. The classification is recorded as current as the transfer is expected to be completed within 12 months.

BHMA

Contingent consideration of \$4,257,000 to be paid to the shareholders has been recorded as part of current contingent consideration. The potential undiscounted amount payable under the agreement is between \$nil and \$4,257,000. The calculation is based on a multiple of revenue growth within the Asia and Non-Asia markets between the calendar years ended 31 December 2018 and 2019.

3 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(A) FAIR VALUE HIERARCHY (CONTINUED)

CONTINGENT CONSIDERATION (CONTINUED)

Executive Travel Limited (ETL)

The financial liability related to the earn out for ETL (\$2,297,000) has been recorded as part of current contingent consideration. The potential undiscounted amount of this liability is based on ETL achieving a forecast EBITDA for the financial year ended 31 December 2018, with an additional payment contingent on ETL achieving an agreed level of EBITDA growth between 31 December 2016 and 31 December 2018. This is contingent pending finalisation of the audit of the financial results for 31 December 2018.

LDV

The financial liability related to the put option for LDV (\$6,397,000) has been recorded as part of current contingent consideration. The option is exercisable after two years from the acquisition date which is now within 12 months.

The settlement amount is based on a multiple using the higher of the company's 31 July 2017 EBITDA and EBITDA for the financial year ended 31 July immediately preceding the year the option is exercised.

The expected cash flows are based on the probability-adjusted EBITDA of \$3,035,000 at the expected date of exercise in FY20. The amount of this liability has been estimated by discounting the value of future expected cash flows at a discount rate of 1.6%.

Travel Partners

The financial liability related to the earn out payment for Travel Partners (\$388,000) has been recorded as part of contingent consideration (\$204,000 as current with the remaining \$184,000 as non-current). The potential undiscounted amount of this liability is based on TTV growth multiples for the three 12 month periods following acquisition.

Umapped

The financial liability related to the hold back payments for Umapped (\$4,675,000) has been recorded as part of contingent consideration (\$3,117,000 as current with the remaining \$1,558,000 as non-current). The first hold back payment is expected to be settled on the first anniversary of acquisition and the second hold back payment is expected to be settled on the second anniversary of acquisition. The potential undiscounted amount of this liability has been estimated as the value of future expected cash flows for the settlement of the hold back payments which under the agreement is between \$nil and \$4,675,000.

Reconciliation of Level 3 contingent consideration for the period is set out below:

	NOTES	CONTINGENT CONSIDERATION \$'000
Opening balance 1 July 2018		26,452
New business combinations	2a	4,789
Unrealised (gains) / losses recognised in the statement of profit or loss		(4,022)
Other unrealised (gains) / losses including net foreign exchange movements recognised in the statement of profit or loss		424
Closing balance 31 December 2018		27,643
Current contingent consideration		24,713
Non-current contingent consideration		2,930
Total contingent consideration		27,643

(B) FAIR VALUES OF OTHER FINANCIAL INSTRUMENTS

The group also has a number of financial instruments which are not measured at fair value in the balance sheet.

The carrying amount of the group's non-current receivables, and current and non-current borrowings, approximates their fair values, as commercial rates of interest are earned and paid respectively and the impact of discounting is not significant.

The carrying amount of cash, current receivables and current payables are assumed to approximate their fair value due to their short term nature.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4 REVENUE

	HALF-YEAR ENDED	
	31 DECEMBER 2018 \$'000	31 DECEMBER 2017 \$'000 RESTATED ¹
Agency revenue from the provision of travel ¹	1,235,763	1,185,276
Principal revenue from the provision of travel ²	67,492	68,078
Revenue from tour operations	135,052	85,914
Revenue from other businesses	23,202	21,039
Total revenue from contracts with customers	1,461,509	1,360,307

¹ Refer to note 19 for details regarding the restatements for changes in accounting policies on adoption of AASB 15.

² Agency revenue from the provision of travel includes a one-off gain for the half-year reporting period of \$8,204,000 related to the Flight Centre Global Procurement Network (GPN) wholesale business. The gains have been brought about by system improvements which have allowed FLT to accurately calculate and capture a component of leisure volume incentives within the GPN business at the time of booking using the most likely method, rather than after the consumer has travelled, in line with the FLT policy as detailed below.

Additional disaggregation of revenue by geographic region is presented in note 1 Segment Information.

ACCOUNTING POLICY

REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from the provision of travel as agent

Revenue is generated when FLT, acting as an agent, arrange and book travel and travel related products to be provided by suppliers to retail and corporate consumers. The supplier of the travel products is the customer in the agency relationship.

The service is paid for in a variety of ways, including guaranteed base payments, commissions, mark-ups, transaction fees, and other ancillary fees. Rebates are received for using travel consolidator systems known as Global Distribution Systems (GDS) to access and book travel supplier products. In addition, volume incentives are received from suppliers for achieving annual targets.

The revenue is recognised over time as the supplier (the customer in the agency relationship) simultaneously receives and consumes the benefit of the travel agency services. The most likely method for revenue recognition is used and practically revenue is recognised when the booking is finalised as this is when the performance obligation is satisfied.

The revenue is variable, however it is not subject to material constraints, except for volume incentives which is recorded when the constraints are no longer applicable:

- Year-end differences – judgements and estimation techniques are required to determine revenue from consumers anticipated to travel over the remaining contract year and the associated incentive rate applicable to these forecast levels. A combination of historical data and actual ticketed data from external sources is used to predict the anticipated travel revenue and associated incentive rate.
- Utilisation rates – the likelihood of the consumer cancelling the travel prior to departure.

Supplier incentives and lump-sum revenue

From time-to-time, incentives or lump sum amounts are received from suppliers. The supplier of the travel products is the customer in the agency relationship. The recognition pattern is dependent on the specific terms of each contract. The revenue is only recognised upfront where there has been a distinct service transferred upfront, otherwise it is recognised over the term of the contract in line with the delivery of the performance obligation. The revenue can be either fixed or variable and is constrained where contract terms require the supplier to be refunded in part or full upon termination of the contract.

Associated contract costs may be eligible for capitalisation as fulfilment assets and amortised over the same period.

Revenue from the provision of travel as principal

Revenue is generated when FLT, acting as principal, provide other services to the customer such as hotel management, events and production management, conferences, marketing campaigns, Travel Money currency sales and franchise programs. In addition, from time-to-time FLT will develop and offer products in its retail and corporate agency business for which FLT are principal.

Revenue is recognised when the performance obligation has been satisfied. The revenue may be variable or fixed and is typically recognised over time as the service is provided. The most likely method is used for variable revenue recognition. The revenue is not subject to material constraints.

4 REVENUE (CONTINUED)

ACCOUNTING POLICY (CONTINUED)

REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

Revenue from tour operations

FLT have a number of touring and ground-handling operations provided through the brands Top Deck, Back-Roads, Buffalo Tours and Olympus Tours.

Revenue is generated from tour operations when FLT, acting as principal, provide tours and ground-handling services. Revenue is variable and includes the gross amount of the tour or transfer sold less any cancellations/refunds.

Revenue is recognised over the duration of the tour or when the ground-handling service is provided. The costs associated with fulfilling the tour such as transport, accommodation and wages are expensed over the duration of the tour and disclosed as cost of tour operations in the statement of profit or loss.

Revenue from other businesses

Revenue is generated when FLT, typically acting as principal, provide other services to customers. This includes services provided by the brands Healthwise, Moneywise, and FC Business School. Revenue is recognised when the performance obligation has been satisfied. The revenue may be variable or fixed and is typically recognised over time as the service is provided. The most likely method is used for variable revenue recognition. The revenue is not subject to material constraints.

5 OTHER INCOME

	HALF-YEAR ENDED	
	31 DECEMBER 2018 \$'000	31 DECEMBER 2017 \$'000 RESTATED ¹
Interest	12,054	12,055
Rent and sub-lease rentals	1,103	1,220
Net foreign exchange gains	2,786	-
Gain on contingent consideration	4,022	-
Total other income	19,965	13,275

¹ Refer to note 19 for details regarding the restatements for changes in accounting policies on adoption of AASB 15.

6 OTHER EXPENSES

	HALF-YEAR ENDED	
	31 DECEMBER 2018 \$'000	31 DECEMBER 2017 \$'000 RESTATED ¹
Other occupancy costs	35,439	32,906
Consulting fees	38,491	35,202
Independent agent consulting fees ²	16,271	8,136
Communication and IT	55,714	48,825
Net foreign exchange losses	-	520
Other expenses	107,157	102,211
Total other expenses	253,072	227,800

¹ Refer to note 19 for details regarding the restatements for changes in accounting policies on adoption of AASB 15.

² Due to the growth in the independent agent model, independent agent consulting fees are separately disclosed from other consulting fees. Comparatives have been restated to align disclosure.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7 IMPAIRMENT CHARGE

FLT has recorded a non-cash write-down to goodwill of \$23,767,000 in Olympus Tours. FLT acquired 100% of the share capital of Olympus Tours on 1 August 2017 for cash consideration of \$27,565,000 which on consolidation gave rise to \$28,822,000 of goodwill. The services provided by Olympus Tours include transfers, excursions and day-trips, arrangements for meetings and incentive groups and land arrangements for cruises and other tour groups in Mexico, Dominican Republic and Costa Rica. Post impairment, the remaining goodwill in the business is \$5,054,000.

Olympus Tours has generally not delivered the profit that FLT initially expected since acquisition. Post-acquisition the business has been negatively impacted by the loss of key customers, a decline in local Mexico sales and a change in local management. The business has set a range of strategies to move forward which include focusing on growing direct group sales out of FC USA; entering into new markets for customer acquisition such as Europe; offering new products such as accommodation and implementing a new booking platform capable of transacting on a B2B basis.

The recoverable amount of the Olympus Tours CGU was determined by reference to the fair-value less costs to sell. This was based on the present value of the existing business acquired along with a forecast of the long term view of Olympus Tours. This was estimated using a discounted cash flow over 5 years which is classified as a Level 3 input in the fair value hierarchy.

The basis of estimation of the cash flows uses the following key operating assumptions:

- Budgeted EBITDA is based on management's forecasts of revenue growth in each country from the provision of destination management company (DMC)/ground handling services
- Revenue forecasts take into account historical revenue and consider external factors such as market sector and geography and the entry into new markets
- Costs are calculated taking into account historical margins, known increases and estimated inflation rates over the period consistent with the locations in which Olympus Tours operate

In calculating the fair value less costs to sell, country specific post-tax discount rates of between 14.7% and 37.0% were applied to the post-tax cash flows. Management has calculated the discount rates based on available market data including reference to data from comparable listed companies within the travel sector.

The model uses a long-term growth rate of 3% - 4% depending on the country specific long term Central Bank rates.

Management has performed a series of sensitivity analyses and any change in a key assumption would cause the Olympus Tours CGU's carrying value to exceed its recoverable amount.

8 CASH AND CASH EQUIVALENTS

	31 DECEMBER 2018 \$'000	30 JUNE 2018 \$'000
General cash at bank and on hand	283,557	444,536
Client cash	622,554	828,456
Total cash and cash equivalents	906,111	1,272,992
Reconciliation to Statement of Cash Flows		
Cash and cash equivalents	906,111	1,272,992
Bank overdraft	(1,135)	-
Balance per Statement of Cash Flows	904,976	1,272,992

9 FINANCIAL ASSET INVESTMENTS

	31 DECEMBER 2018 \$'000	30 JUNE 2018 \$'000
Equity investments - Fair value through profit or loss (FVTPL) ¹	2,224	1,767
Debt securities - Fair value through profit or loss (FVTPL) ¹	10,666	9,697
Debt securities - Fair value through other comprehensive income (FVOCI) ¹	97,510	96,996
Debt securities - Amortised cost ²	75,688	95,688
Total financial asset investments	186,088	204,148

¹ These are investments of general cash.

² These are investments of client cash

Debt securities measured at FVTPL do not have contractual cash flow characteristics.

Debt securities measured at FVOCI have contractual cash flow characteristics that are solely payment of principal and interest and are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Debt securities are measured at amortised cost only if both the following conditions are met:

- it is held within a business model whose objective is to hold assets in order to collect contractual cash flows
- the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest

Debt securities at FVOCI and debt securities at FVTPL are measured at fair value, which is determined by reference to price quotations in a market for identical assets. As the assets are not heavily traded, FLT has determined that they are classified as Level 2 (2018: Level 2) under the AASB 13 Fair value measurement hierarchy, based on the valuation technique as described above.

Equity investments at FVTPL are measured at fair value, which is determined by an independent qualified valuer in accordance with Australian Accounting Standards (AASB's) and International Private Equity and Venture Capital Valuation Guidelines as adopted by Australian Private Equity and Venture Capital Association Limited. FLT has determined that they are classified as Level 3 (2018: Level 3) under the AASB 13 Fair value measurement hierarchy, based on the valuation technique as described above.

10 CONTRACT ASSETS

	31 DECEMBER 2018 \$'000	30 JUNE 2018 \$'000
Volume incentive receivables	294,073	266,339
Accrued revenue	41,418	59,150
Loss allowance	(3,636)	(3,498)
Total contract assets	331,855	321,991

Refer to note 19(v) for additional information on contract assets.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11 NET DEBT

NET DEBT	NOTES	31 DECEMBER 2018 \$'000	30 JUNE 2018 \$'000
General cash at bank and on hand	8	283,557	444,536
General financial investments	9	110,400	108,460
		393,957	552,996
LESS:			
Borrowings - current		35,189	34,846
Borrowings - non-current		578	652
		35,767	35,498
Positive net debt¹		358,190	517,498

FLT is currently in a positive net debt position.

¹ Net debt = (general cash + general investments) – (current + non-current borrowings). The calculation excludes client cash and client financial asset investments.

12 DIVIDENDS

OVERVIEW

When determining dividend returns to shareholders, FLT's board considers a number of factors, including the company's anticipated cash requirements to fund its growth and operational plans and current and future economic conditions.

While payments may vary from time to time according to these anticipated needs, FLT aims to return to shareholders approximately 50 - 60% of net profit after income tax (NPAT) in line with FLT's current policy, subject to the business's needs.

The proposed interim dividend has been declared taking into account traditional seasonal cash flows, anticipated cash outflows and the one-off profit items.

The interim dividend payment represents a \$60,488,000 (2017: \$60,639,000) return to shareholders, 71.1% (2017: 59.3%) of FLT's statutory NPAT of \$85,024,000. It represents 59.8% (2017: 59.4%) of FLT's underlying NPAT¹ of \$101,140,000.

A special dividend of 149 cents per share has been declared, which represents a \$150,211,000 return to shareholders.

	HALF-YEAR ENDED	
	DECEMBER 2018 \$'000	DECEMBER 2017 \$'000
ORDINARY SHARES		
Final ordinary dividend for the year ended 30 June 2018 of 107.0 cents (2017: 94.0) per fully paid share.	108,153	94,990

Since half-year end the directors have recommended the following dividends. These are per fully paid ordinary share fully franked based on tax paid at 30%. The aggregate amount of the proposed dividends expected to be paid on 12 April 2019 out of retained profits at 31 December 2018, but not recognised as a liability at the end of the half year are as follows:

	AMOUNT PER SECURITY CENTS	AMOUNT PER SECURITY CENTS
Interim dividend	60.0	60.0
Special dividend	149.0	-
	209.0	60.0

	\$'000	\$'000
Interim dividend	60,488	60,639
Special dividend	150,211	-
	210,699	60,639

¹ Underlying NPAT is a non-IFRS measure and not subject to review procedures.

December 2018 underlying PBT excludes \$8,204,000 relating to GPN revenue alignment, \$23,767,000 relating to Olympus Tours impairment and \$2,557,000 relating to AASB 15 transition. Underlying NPAT also excludes the related tax impact of \$3,110,000.

December 2017 underlying PBT excludes adjustments relating to AASB 15 transition of \$5,000. Underlying NPAT also excludes the related tax impact of (\$137,000).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13 CONTRIBUTED EQUITY

OVERVIEW

Typically movements in contributed equity relate to shares issued under the employee share plan (ESP). This reinforces the importance that FLT places on ownership to drive business improvement and overall results.

Where shares in FLT are acquired by on-market purchases prior to settling the vested entitlement, the cost of the acquired shares is carried as treasury shares and deducted from equity.

RECONCILIATION OF ORDINARY SHARE CAPITAL

The following reconciliation summarises the movements in issued capital during the period.

Issues of a similar nature have been grouped and the issue price shown is the weighted average. Detailed information on each issue of shares is publicly available via the ASX.

DETAILS	NUMBER OF AUTHORISED SHARES	WEIGHTED AVERAGE ISSUE PRICE	\$'000
Opening Balance 1 July 2017	101,048,815		402,759
ESP	13,164	\$45.43	598
Closing Balance 31 December 2017	101,061,979		403,357
Opening Balance 1 July 2018	101,073,651		404,023
ESP	14,645	\$51.50	754
Closing Balance 31 December 2018	101,088,296		404,777

RECONCILIATION OF TREASURY SHARES

The following reconciliation summarises the movements in treasury shares held in a share trust for future allocation to the ESP and LTRP (long term retention plan).

Items of a similar nature have been grouped and the price shown is the weighted average.

DETAILS	NUMBER OF SHARES	WEIGHTED AVERAGE PRICE	\$'000
Opening Balance 1 July 2017	(53,114)		(1,801)
Purchase of shares by share trust	(124,228)	\$45.43	(5,644)
Allocation of shares to ESP	52,720	\$44.04	2,322
Allocation of shares to ESP matched shares	5,782	\$46.66	270
Closing Balance 31 December 2017	(118,840)		(4,853)

DETAILS	NUMBER OF SHARES	WEIGHTED AVERAGE PRICE	\$'000
Opening Balance 1 July 2018	(208,536)		(10,934)
Purchase of shares by share trust	(110,305)	\$56.80	(6,265)
Allocation of shares to ESP	40,195	\$52.17	2,097
Allocation of shares to ESP matched shares	2,854	\$62.37	178
Gain/(loss) in equity on allocation of shares			(273)
Closing Balance 31 December 2018	(275,792)		(15,197)

14 EARNINGS PER SHARE

OVERVIEW

Statutory earnings per share (EPS) was 84.1 cents (2017: 101.3 cents), down 16.9% (2017: up 37.3%) on the prior comparative period. At an underlying level¹, EPS decreased 1.0% (2017: increased 30.6%) to 100.1 cents (2017: 101.2 cents).

	HALF-YEAR ENDED	
	31 DECEMBER 2018 CENTS	31 DECEMBER 2017 CENTS RESTATED ²
BASIC EARNINGS PER SHARE		
Profit attributable to the company's ordinary equity holders	84.1	101.3
DILUTED EARNINGS PER SHARE		
Profit attributable to the company's ordinary equity holders	83.6	100.8
RECONCILIATIONS OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE		
	\$'000	\$'000
Profit after tax attributable to the company's ordinary equity holders used in calculating basic and diluted earnings per share	84,797	102,235
WEIGHTED AVERAGE NUMBER OF SHARES USED AS THE DENOMINATOR		
	NUMBER	NUMBER
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share ³	100,833,029	100,972,676
Adjustments for calculation of diluted earnings per share:		
Share rights	569,258	478,666
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	101,402,287	101,451,342

¹ Underlying EPS is a non-IFRS measure and is not subject to audit or review procedures. Refer to note 12 for breakdown of underlying NPAT used in the calculation of underlying EPS.

² Refer to note 19 for details regarding the restatements for changes in accounting policies on adoption of AASB 15 that resulted in a change to profit and EPS.

³ The basic EPS denominator is the aggregate of the weighted average number of ordinary shares after deduction of the weighted average number of treasury shares outstanding during the period.

INFORMATION CONCERNING THE CLASSIFICATION OF SECURITIES

LONG TERM RETENTION PLAN (LTRP), EMPLOYEE SHARE PLAN (ESP) AND TRANSFORMATION INCENTIVE PLAN (TIP)

Rights granted under the LTRP and entitlements to matched shares under the ESP are considered contingently issuable ordinary shares as at 31 December 2018. They are included in the determination of diluted earnings per share to the extent to which they are dilutive, based on the number of shares that would be issuable if the end of the period were the end of the contingency period.

Rights granted under the TIP are considered contingently issuable ordinary shares if the performance condition is satisfied at the balance sheet date. They are included in the determination of diluted earnings per share to the extent to which they are dilutive. At 31 December 2018, the performance conditions are not satisfied and as such are not included as part of the weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share.

The rights and entitlements are not included in the determination of basic earnings per share.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15 CONTINGENT ASSETS AND LIABILITIES

GENERAL CONTINGENCIES

FLT is a global business and from time to time in the ordinary course of business it receives enquiries from various regulators and government bodies. FLT cooperates fully with all enquiries and these enquiries do not require disclosure in their initial state, however should the company become aware that an enquiry is developing further or if any regulatory or government action is taken against the group, appropriate disclosure would be made in accordance with the relevant accounting standards.

As a global business, from time to time FLT is also subject to various claims and litigation from third parties during the ordinary course of its business. The directors of FLT have given consideration to such matters which are or may be subject to claims or litigation at period end and, unless specific provisions have been made, are of the opinion that no material contingent liability for such claims of litigation exists.

The group had no other material contingent assets or liabilities.

16 COMMITMENTS

3MUNDI

As part of the investment in 3mundi, FLT has entered into a put and call option with the 3mundi shareholders over the remaining 75% of 3mundi's share capital.

The contract grants FLT a call option to acquire the shares and grants the 3mundi shareholders a put option to sell the shares to FLT. The put option is exercisable within 30 business days following the release of the audited statutory financial statements of 3mundi for each year commencing with the 2018 financial year (31 December 2018). If the put option is not exercised within 30 business days of the audited financial statements, then FLT has a 30 day period to exercise its call option. If neither the put nor call option are exercised during this period, then it becomes automatically exercisable again the next year. Unless exercised, this will continue until 31 July 2027 when the options will lapse.

As at 31 December 2018, no asset or liability has been accrued as the related derivatives (valued using Level 3 consisting of an EBITDA multiple) are deemed to have no significant value. The audited financial statements have not yet been released as at the date of this report.

IGNITE

The Ignite share sale agreement has a number of tranches. FLT's purchase of 49% was tranche 1. Subsequent tranches will potentially occur in future financial years and are based on Ignite earnings and time hurdles being met. Details of each subsequent tranche are:

- Tranche 2 obliges FLT to acquire a further 2% of Ignite's share capital upon finalisation of the June 2018 audit. This was initially at the finalisation of the June 2017 audit, however this was subsequently amended¹
- Tranche 3 obliges FLT to acquire an additional 24% of Ignite's share capital upon finalisation of the June 2019 audit
- Tranche 4 obliges Ignite's original owners to grant FLT a call option and FLT to grant the Ignite original owners a put option over the remaining 25% of Ignite's share capital.

The amended contract includes an advance payment of \$4,000,000 in respect of future tranches payable.

The contract also grants Ignite's original owners a conditional put option at the end of June 2019 (initially June 2018, amended as per above) which is highly unlikely to vest. As at 31 December 2018, no liability has been accrued for these future tranches as the tranches are not yet exercisable and any related derivatives are deemed to have no significant value.

¹ This tranche has not been completed post 30 June 2018 as the share sale agreement between Ignite and FLT is currently being re-negotiated.

AIRTREE

In a prior period, FLT signed an agreement with AirTree Ventures 2 Partnership LP to invest \$5,000,000 into the venture capital fund. As at 31 December 2018 FLT has only received capital calls to the value of \$2,224,000 leaving \$2,776,000 to be called in the future. The amount to be called has not been recognised as a liability at period end as FLT does not have a present obligation. The obligation only arises upon receipt of the capital call notices.

FLT has no control or managerial involvement in the running of the venture capital fund and the total contribution of \$5,000,000 is less than 4% of the total capital in the fund.

17 EVENTS OCCURRING AFTER THE END OF THE REPORTING PERIOD

ACQUISITIONS

CASTO TRAVEL US LLC (CASTO)

On 1 February 2019, FLT purchased 100% of Casto Travel US LLC, for \$20,070,000. Casto is a leading well established corporate and leisure travel company based in San Jose, California serving the San Francisco Bay Area since 1974. Casto was primarily acquired to strengthen FLT's corporate presence on the US West Coast, a market where we have previously had a relatively small presence.

The initial accounting for the business combination is incomplete at the time the financial report was authorised for issue, accordingly full disclosure cannot be made in accordance with AASB 3 *Business Combinations*.

EUROPEAN TRAVEL SERVICE CENTER, S.L. (ETSC)

On 18 February 2019, FLT purchased the remaining 75% of European Travel Service Center, S.L. for \$4,238,000 bringing FLT's shareholding to 100%. ETSC is a European based travel technology company and is the owner and developer of 'chatbot' travel assistance software SAM :] which is used in FLT's corporate business worldwide. The acquisition gives FLT control over the development roadmap and strategic direction of the software offering.

The initial accounting for the business combination is incomplete at the time the financial report was authorised for issue, accordingly full disclosure cannot be made in accordance with AASB 3 *Business Combinations*.

DEBT FACILITY

On 20 February 2019, FLT entered into a series of bilateral debt facilities totalling \$250,000,000 to provide additional liquidity to fund potential future acquisitions. The facilities mature in three years time. No amounts have been drawn down under the facilities as at the date of this report (as the facilities remain subject to the satisfaction of customary conditions precedent).

DIVIDENDS

On 21 February 2019, FLT's directors declared a dividend and special dividend for the half-year ended 31 December 2018, to be paid out of existing company general cash. Refer to note 12 for details.

There are no other significant events after the end of the reporting period which have come to our attention.

18 SEASONALITY

Due to the seasonal nature of a number of key segments, higher revenues, operating profits and operating cash flows are expected in the second half of the year compared with the first six months. This is impacted by:

- Higher leisure sales in the lead up to the northern hemisphere summer holidays, particularly in the United States and Canada
- Higher leisure sales during the Australian expo seasons, typically held in the second half; and
- Lower sales in the corporate travel agency businesses over the Christmas holiday period.

This is partially offset by the seasonality of the touring businesses which earn the majority of their profits in the northern hemisphere summer holiday period, which falls in the first six months.

This information is provided to allow for a proper appreciation of the results, however management have concluded that this does not constitute "highly seasonal" as considered by AASB 134 *Interim Financial Reporting*.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

19 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

(A) BASIS OF PREPARATION

This general purpose financial report for the interim half-year reporting period ended 31 December 2018 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by Flight Centre Travel Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and *ASX Listing Rules*.

The accounting policies adopted are consistent with those applied at 30 June 2018, except for the adoption of AASB 15 *Revenue from Contracts with Customers* as outlined below.

RECLASSIFICATION

Certain prior period amounts have been reclassified to conform to the current period's presentation.

(B) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

The Group applies, for the first time, AASB 15 *Revenue from Contracts with Customers* that requires restatement of previous financial statements. As required by AASB 134 *Interim Financial Reporting* the nature and effect of these changes are disclosed below.

Several other amendments and interpretations that became applicable to FLT for the first time for the 31 December 2018 interim half-year report did not result in a change to the group's accounting policies or require any retrospective adjustments.

AASB 9 FINANCIAL INSTRUMENTS

The Group early adopted AASB 9 with an initial application date of 1 January 2016.

AASB 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

AASB 15 was issued by the AASB in December 2014 and replaces virtually all revenue recognition requirements, including those as set out in AASB 118 *Revenue*. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group adopted AASB 15 using the full retrospective method of adoption with comparatives restated for the financial year ended 30 June 2018. The effect of the transition on the current period has not been disclosed as the standard provides an optional practical expedient. FLT did not apply any of the other available optional practical expedients.

Whilst the effect on the current period has not been disclosed in full, market guidance provided at the Annual General Meeting on 22 October 2018 excluded the impact of AASB 15. Therefore, for the purposes of comparability to this guidance, the impact of AASB 15 adoption is excluded from profit before tax as an underlying adjustment.

19 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (CONTINUED)

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail below.

Profit or loss statement for the half-year ended 31 December 2017

		31 DECEMBER 2017 AS ORIGINALLY PRESENTED \$'000	AASB 15 RECLASSIFICATIONS \$'000	AASB 15 REMEASUREMENTS \$'000	31 DECEMBER 2017 RESTATE \$'000
REVENUE	NOTES				
Revenue	(i) (ii) (iv)	1,360,112	(1,939)	2,134	1,360,307
Other Revenue	(iii)	13,665	(13,665)	-	-
Total revenue		1,373,777	(15,604)	2,134	1,360,307
Other income	(iii)	-	13,275	-	13,275
EXPENSES					
Employee benefits	(ii)	(719,077)	44	1,422	(717,611)
Sales and marketing	(iv)	(95,583)	(5,461)	-	(101,044)
Tour operations - cost of sales	(iv) (i)	(59,808)	5,293	(3,551)	(58,066)
Other expenses		(230,253)	2,453	-	(227,800)
Profit before income tax expense		139,429	-	5	139,434
Income tax expense		(37,271)	-	137	(37,134)
Profit after income tax expense		102,158	-	142	102,300
Profit after tax attributable to:					
Company owners		102,158	-	77	102,235
Non-controlling interests		-	-	65	65
		102,158	-	142	102,300
Earnings per share for profit attributable to the ordinary equity holders of the company:					
		CENTS	CENTS	CENTS	CENTS
Basic earnings per share	14	101.2	-	0.1	101.3
Diluted earnings per share	14	100.7	-	0.1	100.8

The change did not have a material impact on OCI for the period. The impact on the statement of cash flows for the year ended 31 December 2017 only relates to the changes in profit before tax from continuing operations, certain adjustments to reconcile profit before tax to net cash flows from operating activities, and working capital adjustments. However, there was no impact on the net cash flows from operating activities. The cash flows from investing and financing activities were not affected.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

19 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (CONTINUED)

Balance sheet for the year ended 30 June 2018

ASSETS	NOTES	AS AT 30 JUNE 2018 AS ORIGINALLY PRESENTED \$'000	AASB 15 RECLASSIFICATIONS \$'000	AASB 15 REMEASUREMENTS \$'000	AS AT 30 JUNE 2018 RESTATED \$'000
Current assets					
Trade and other receivables		845,098	(319,353)	-	525,745
Contract assets		-	321,991	-	321,991
Other assets		89,205	1,428	6,357	96,990
Total current assets	(i) (ii) (v)	2,435,145	4,066	6,357	2,445,568
Non-current assets					
Other assets	(ii)	-	-	3,753	3,753
Deferred tax assets		63,952	-	5,640	69,592
Total non-current assets		970,074	-	9,393	979,467
Total assets		3,405,219	4,066	15,750	3,425,035
LIABILITIES					
Current liabilities					
Trade and other payables		1,565,288	(59,715)	-	1,505,573
Deferred revenue	(i) (ii)	-	63,781	10,967	74,748
Total current liabilities		1,683,788	4,066	10,967	1,698,821
Non-current liabilities					
Trade and other payables		97,514	(37,087)	-	60,427
Deferred revenue	(ii)	-	37,087	18,634	55,721
Total non-current liabilities		166,989	-	18,634	185,623
Total liabilities		1,850,777	4,066	29,601	1,884,444
Net assets		1,554,442	-	(13,851)	1,540,591
EQUITY					
Retained profits		1,122,334	-	(13,708)	1,108,626
Equity attributable to the Company owners		1,549,583	-	(13,708)	1,535,875
Non-controlling interests		4,859	-	(143)	4,716
Total equity		1,554,442	-	(13,851)	1,540,591

19 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (CONTINUED)

The impact on the group's retained earnings as at 1 July 2017 and 1 July 2018 is as follows:

	2018 \$'000	2017 \$'000
Opening retained profits 1 July as originally presented	1,122,334	1,015,033
Recognition of:		
Fulfilment asset	10,110	6,541
Deferred revenue	(29,601)	(26,811)
Deferred tax asset	5,640	5,850
	(13,851)	(14,420)
Less: Impact of change in accounting policy attributable to NCI	143	65
Opening retained profits 1 July - restated	1,108,626	1,000,678

In summary, the impact of AASB 15 adoption is a net decrease in retained earnings at 1 July 2017 of \$14,420,000. An increase in H1'18 revenue of \$2,134,000 and a decrease of FY18 revenue of \$2,596,000. An increase in H1'18 PBT of \$5,000 and an increase of FY18 PBT of \$779,000.

The nature of the adjustments that impact PBT are described below:

(I) REVENUE FROM TOUR OPERATIONS

Under AASB 15 revenue is recognised as services are provided. Practically this means revenue from tour operations is now recognised over the duration of the tour. This represents a deferral of revenue compared to the previous policy, whereby revenue was generally recognised at tour departure.

The net impact on transition is an opening retained earnings decrease of \$1,735,000, with the recognition of deferred revenue of \$7,265,000, a fulfilment asset of \$5,115,000, and deferred tax asset of \$414,000.

The net impact on H1'18 is a revenue increase of \$4,837,000 and PBT increase of \$1,286,000.

The net impact on FY18 is a revenue decrease of \$512,000 and a PBT increase of \$19,000.

(II) REVENUE FROM PROVISION OF TRAVEL AS AGENT – LUMP SUM CONSIDERATION

From time-to-time, lump sum amounts are received from suppliers, who under AASB 15 are deemed to be FLT's customer. Depending on the specific terms of the contract, some amounts which were previously recognised upfront will now be spread over the duration of the contract term and associated contract costs, previously expensed as incurred, will be capitalised as fulfilment assets and amortised over the same term.

The net impact on transition is a decrease in opening retained earnings of \$12,684,000 due to the capitalisation of expenses as a fulfilment asset of \$1,426,000, the deferral of revenue of \$19,546,000, and deferred tax asset of \$5,436,000.

The net impact on H1'18 is a revenue decrease of \$2,703,000 and a PBT decrease of \$1,281,000.

The net impact on FY18 is a revenue decrease of \$2,084,000 and a PBT increase of \$759,000.

The decrease in revenue was due to lump sum consideration received during the period being reversed and deferred, offset by the release of previously deferred revenue.

This transition adjustment will increase PBT in future years as the fulfilment asset is unwound and the deferred revenue is released.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

19 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (CONTINUED)

The nature of the adjustments that impact classification are described in (iii) to (v) below:

(III) OTHER INCOME

Historically FLT disclosed certain items as 'Other Revenue', such as rent and interest. Upon transition these income streams have been reclassified to 'Other Income'.

(IV) PRINCIPAL VS AGENT PRESENTATION

Under AASB 15 there is more detailed guidance on identifying performance obligations. From time-to-time FLT develop and offer products in its retail and corporate agency business' or other businesses which are principal in nature.

The principal vs agent assessment has resulted in some minor reclassification adjustments as follows:

- the gross presentation of a small number of advertising revenue streams separately to their directly associated costs, which were previously shown net in revenue.
- the presentation of a small number of merchant service fees incurred in providing travel agency services being shown net against revenue, which was previously shown gross in other expenses.

(V) PRESENTATION OF ASSETS AND LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS

FLT has also voluntarily changed the presentation of certain amounts in the balance sheet to reflect the terminology of AASB 15:

- Contract assets recognised in relation to volume incentives receivables and accrued revenue were previously presented as part of trade and other receivables and other assets as override receivables and other receivables. The associated expected credit losses were reclassified from trade and other receivables to contract assets (loss allowance).
- Contract liabilities in relation to deferred revenue were previously included in trade and other payables as unearned income.
- A new classification has been made for contract fulfilment assets and is presented within other assets.

(IV) OTHER ADJUSTMENTS

In addition to the adjustments described above, upon the adoption of AASB 15, other items of the primary financial statements such as income tax expense, foreign currency translation reserve, non-controlling interests and retained earnings, were adjusted as necessary.

NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2018 reporting period, as outlined below:

(I) AASB 16 LEASES

AASB 16 was issued by the AASB in February 2016. Due to the large number of operating leases held by FLT for its global shop network, corporate offices and hotel lease, this standard will have a significant impact on the group.

The key features of the new standard are:

- elimination of classification of leases as either operating leases or finance leases for a lessee
- the recognition of lease assets and liabilities on the balance sheet, initially measured at present value of unavoidable future lease payments
- recognise depreciation of lease assets and interest on lease liabilities on the income statement over the lease term
- separation of the total amount of cash paid into a principal portion and interest in the cash flow statement
- short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements.

The new standard will be effective for annual reporting periods beginning on or after 1 January 2019, which means that it will be applied in the reporting period ending 30 June 2020.

FLT is continuing its assessment on the effect of AASB 16 on its consolidated financial statements however the impact is expected to materially gross-up FLT's balance sheet. As the assessment progresses, quantitative and qualitative disclosures will be provided.

19 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (CONTINUED)

(II) AASB INTERPRETATION 23 UNCERTAINTY OVER INCOME TAX TREATMENT

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of AASB 112 and does not apply to taxes or levies outside the scope of AASB 112, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. FLT will apply interpretation from its effective date. Since FLT operates in a complex multinational tax environment, applying the Interpretation may affect its consolidated financial statements and the required disclosures. In addition, FLT may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

There are no other standards that have been issued but are not yet effective and that are expected to have a material financial impact on the entity in the current or future reporting periods and on foreseeable future transactions.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Flight Centre Travel Group Limited, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of Flight Centre Travel Group Limited for the half-year ended 31 December 2018 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the board



G.F. Turner
Director

21 February 2019

INDEPENDENT AUDITOR'S REVIEW REPORT



Ernst & Young
111 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
ey.com/au

Independent Auditor's Review Report to the Members of Flight Centre Travel Group Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Flight Centre Travel Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the balance sheet as at 31 December 2018, the statement of profit or loss, statement of other comprehensive income, statement of cash flows and statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2018 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

INDEPENDENT AUDITOR'S REVIEW REPORT



Ernst & Young
111 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
ey.com/au

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive, stylized font.

Ernst & Young

A handwritten signature in black ink that reads 'Ric Roach' in a cursive, stylized font.

Ric Roach
Partner
21 February 2019