

Appendix 4E

**Flight Centre Limited
ABN 25 003 377 188**

**Preliminary Final Report
30 June 2004**

Flight Centre Limited
ABN 25 003 377 188
Results for announcement to the market

	2004	2003	Amount	% change
	\$ '000	\$ '000	of change	
			\$ '000	
Revenue from ordinary activities	799,011	626,039	172,972	28%
Profit/(loss) before tax and amortisation of goodwill from ordinary activities attributable to members	131,354	108,139	23,215	21%
Profit/(loss) from ordinary activities before income tax expense	121,326	102,325	19,001	19%
Profit/(loss) from ordinary activities after tax attributable to members of Flight Centre Limited	81,927	70,020	11,907	17%
Net profit/(loss) for the period attributable to members of Flight Centre Limited	81,927	70,020	11,907	17%

	2004		2003	
	Amount	Franked	Amount	Franked
	Per Security	Amount	Per Security	Amount
	Cents	Cents	Cents	Cents
Dividends				
Final dividend	40.5	40.5	25	25
Interim dividend	20.5	20.5	18.5	18.5
Special dividend	40.0	40.0	-	-

The record date for determining entitlements to the final dividend is 24 September 2004.
(payment date: 15 October 2004)

The record date for determining entitlements to the special dividend is 5 November 2004.
(payment date: 26 November 2004)

Discussion and Analysis

- The Group's revenue for the year is \$799.0 million. This represents an increase of 28% or \$173.0 million from \$626.0 million in 2003.
- Revenue growth has exceeded growth in shop numbers, which increased by 120 shops over the previous year representing a 12% increase in shop numbers. Additionally, there has been an increase in selling staff of 16%.
- Expenses from ordinary activities for the year are \$677.7 million. This represents an increase of 29%, or \$154.0 million, from \$523.7 million in 2003.

Retail shop expenses increased 26% to \$599.9 million from \$476.0 million. These increases are attributable to an increase in shops and selling staff per shop.
- Administration/support expenses have increased 60% to \$59.2 million from \$37.0 million. There has been increased advertising to promote re-branding of stores, promote the "Lowest Airfares Guaranteed" and maintain overall market share. Also Britannic Travel Limited was reported as part of the Flight Centre Limited group for the full year ended 30 June 2004 in comparison to three and a half months in the prior year. This has resulted in an increase of \$8 million.
- The net profit attributable to members of Flight Centre Limited is \$81.9 million. This represents an increase of 17%, or \$11.9 million, from \$70.0 million in 2003 following strong trading in the third quarter as previously announced.
- Increase in borrowing costs reflects the increase in unsecured notes issued to employees – fostering commitment and the core company philosophy of ownership by employees.

Flight Centre Limited
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Consolidated statement of financial performance
for the year ended 30 June 2004

	Note	2004 \$ '000	2003 \$ '000	% change
Revenue from ordinary activities	1(a), 2	799,011	626,039	28%
Less				
Retail shop expenses		(599,918)	(476,025)	26%
Administration/support expenses		(59,191)	(36,970)	60%
Borrowing cost expenses		(18,576)	(10,719)	73%
Profit from ordinary activities before income tax expense		121,326	102,325	19%
Income tax expense		39,399	32,305	
Net profit attributable to members of Flight Centre		81,927	70,020	17%
Net increase/(decrease) in foreign currency translation reserve		5,824	(9,230)	
Total changes in equity other than those resulting from transactions with owners as owners		87,751	60,790	
Earnings per share		Cents	Cents	
Basic earnings per share		87.4	77.0	14%
Diluted earnings per share		87.2	76.4	14%

Flight Centre Limited
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Consolidated statement of financial position
as at 30 June 2004

	2004 \$ '000	2003 \$ '000
Current assets		
Cash assets	258,139	194,579
Receivables	171,748	161,483
Other financial assets	223,591	174,793
Other	13,830	9,366
Total Current Assets	667,308	540,221
Non-current assets		
Property, plant and equipment	106,659	76,957
Other financial assets	3,064	34
Intangible assets	168,634	167,608
Deferred tax assets	15,034	10,939
Other	438	601
Total Non-Current Assets	293,829	256,139
Total assets	961,137	796,360
Current liabilities		
Payables	444,021	342,353
Interest bearing liabilities	41,494	34,083
Current tax liabilities	4,648	11,482
Provisions	2,505	2,186
Other	1,914	4,382
Total Current Liabilities	494,582	394,486
Non-current liabilities		
Payables	16,463	23,317
Interest bearing liabilities	15,000	-
Deferred tax liabilities	7,654	3,215
Provisions	2,014	1,856
Other	1,189	5,876
Total Non-Current Liabilities	42,320	34,264
Total liabilities	536,902	428,750
Net assets	424,235	367,610
Equity		
Contributed equity	256,598	245,103
Reserves	15,770	9,946
Retained profits	151,867	112,561
Total equity	424,235	367,610

Flight Centre Limited
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Consolidated statement of cash flows
for the year ended 30 June 2004

	2004 \$'000	2003 \$'000
Cash flow from operating activities		
Net receipts	849,345	603,387
Payments to suppliers and employees	(626,255)	(451,383)
Interest received	23,496	15,652
Borrowing costs	(17,206)	(10,170)
Income taxes paid	(45,843)	(30,237)
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Net cash inflow from operating activities	183,537	127,249
Cash flows from investment activities		
Payment for purchase of controlled entities net of cash acquired	(1,525)	(63,638)
Payments for intangibles	(1,199)	(1,551)
Payments for property, plant & equipment	(58,512)	(38,162)
Payment for investments	(49,135)	(76,076)
Payment for investment in joint venture	(3,064)	-
Proceeds from sale of property, plant & equipment	635	625
Proceeds from sale of investments	1,680	1,668
	<hr/>	<hr/>
Net cash outflow from investment activities	(111,120)	(177,134)
Cash flows from financing activities		
Proceeds from issues of shares	6,254	86,324
Proceeds from borrowings	33,549	18,351
Repayment of borrowings	(12,708)	(13,247)
Repayment of lease liabilities	(40)	(163)
Dividends paid	(42,621)	(39,268)
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Net cash inflow/(outflow) from financing activities	(15,566)	51,997
Net increase in cash held	56,851	2,112
Cash at the beginning of the financial year	194,579	194,523
Effects of exchange rates changes on cash	6,709	(2,056)
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Cash at the end of the financial year	258,139	194,579

Flight Centre Limited
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Notes to and forming part of Appendix 4E

30 June 2004

1. Summary of significant accounting policies

Unless discussed below, the accounting policies, estimation methods and measurement bases used in this report are the same as those used in the last annual report. Any changes in accounting policies, estimation methods and measurement bases since the last annual report are disclosed as follows:

(a) Receivable and revenue recognition

Total Transaction Value

Total Transaction Value (TTV) 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 from other sources. Flight Centre's revenue is, therefore, derived from TTV. TTV is stated net of GST payable.

(b) Investments

Corporate bonds and various asset backed securities have been purchased in the market at a premium or discount to face value. The securities are carried at an amount representing cost and a portion of the premium or discount recognised as income on an effective yield basis. The premium or discount brought to account each period is accounted for as interest received.

Change in accounting policy

Previously securities purchased were classified as cash due to the short-term nature of the investment and the high liquidity associated with these investments. Amounts have been reclassified as investments this year and comparatives adjusted to reflect the change in classification.

Total amounts reclassified are as follows:-

	2004	2003
	\$'000	\$'000
Cash	(223,591)	(174,793)
Other financial assets - current	223,591	174,793
Net change current assets	-	-

Total cash and security holdings are as follows:-

	2004	2003
	\$'000	\$'000
Cash	258,139	194,579
Other financial assets – current	223,591	174,793
Net change current assets	481,730	369,372

2 Revenue from ordinary activities

	2004	2003	
	\$'000	\$'000	% change
Total transaction value (TTV) *	5,884,811	4,555,255	29%
Revenue from Operating Activities			
Commissions and fees from the provision of travel services	567,239	444,896	28%
Other revenue from the provision of travel services	192,987	148,799	30%
Other revenue	14,069	12,217	15%
Revenue from outside the operating activities			
Interest	22,120	16,410	35%
Sale of non-current assets	635	625	
Foreign exchange gains	1,961	3,092	
	799,011	626,039	28%
Revenue as % of TTV	14%	14%	

* Total transaction value (TTV) 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 from other sources. Flight Centre's revenue is therefore derived from TTV.

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Notes to and forming part of Appendix 4E

30 June 2004

3 Dividends

	2004	2003
	\$'000	\$'000
Ordinary Shares		
Under provision final dividend	-	23
Final dividend paid		
Fully franked - 25 cents per share paid 17 October 2003 (2003: 25 cents)	23,381	22,029
Interim dividend paid		
Fully franked - 20.5 cents per share paid 26 March 2004 (2003: 18.5 cents paid 29 April 2003)	19,240	17,216
Total dividends provided for or paid	42,621	39,268

Dividends not recognised at year end

In addition to the above dividends, since year end the directors have declared the payment of a final dividend of 40.5 cents per fully paid ordinary share, fully franked to be paid on 15 October 2004 and a special dividend of 40 cents (fully franked) per fully paid ordinary share to be paid on 26 November 2004.

The aggregate amount of the proposed final and special dividends expected to be paid out of retained profits at 30 June 2004, but not recognised as a liability at year end

75,999	23,316
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The dividends to be paid for the 2003/2004 year are \$1.01, a 135% increase on 2002/2003.

4 Movement in retained profits

	2004	2003
	\$ '000	\$ '000
Balance 1 July 2003	112,561	59,780
Net profit attributable to members of Flight Centre Limited	81,927	70,020
Adjustment resulting from change in accounting policy for providing for dividends	-	22,029
Dividends provided for or paid	(42,621)	(39,268)
	151,867	112,561

5 Net tangible assets

	2004	2003
	\$ 2.73	\$ 2.14
Net tangible asset backing per ordinary security		

6 Earnings per share

	cents	cents
Basic earnings per share	87.4	77.0
Diluted earnings per share	87.2	76.4
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	93,685,610	90,971,725
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share.	93,938,920	91,605,794
	\$ '000	\$ '000
Earnings used in calculating earnings per share	81,927	70,020

Options granted to directors and employees under the Flight Centre Limited Employee Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. The options have not been included in the determination of basic earnings per share.

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Notes to and forming part of Appendix 4E

30 June 2004

7 Investment in joint venture

Name of joint venture	Flight Centre - Comfort Business Travel Service Co Ltd
Percentage holding	50%
Date of establishment	17 April 2004

Flight Centre Limited entered into a joint venture with Flight Centre - Comfort Business Travel Service Co Ltd as part of the strategic expansion of the Flight Centre corporate business into the Asian region. The investment in the joint venture is expected to complement the company's presence in Asia and the global expansion of its corporate network.

The total investment in the joint venture is \$3,064,180

8 Events occurring after balance date

Acquisition of assets of Contal Pty Ltd

On 21 July 2004, Flight Centre Limited and its controlled entities purchased the assets of travelthere.com and the software assets of Contal Pty Ltd for total consideration of \$5,000,000. Travelthere.com is an internet travel site that facilitates the integrated booking of travel.

The purchase provides software to enhance the booking of travel on the internet by providing multiple airline fares and other travel products in one easy to use screen.

9 Segment information

Business Segments

Flight Centre Limited and its controlled entities operate predominately in one business segment being the sale of travel and travel-related services and products.

**Geographic Segments
June 2004**

	Australia \$ ' 000	New Zealand \$ ' 000	United Kingdom \$ ' 000	Other \$ ' 000	Eliminations \$ ' 000	Consolidated \$ ' 000
Total Transaction Value	3,812,612	561,435	792,131	732,545	(13,912)	5,884,811
Sales to customers outside the economic entity	488,454	85,243	108,711	91,887	-	774,295
Inter-segment sales	5,699	635	66	213	(6,613)	
Revenue	494,153	85,878	108,777	92,100	(6,613)	774,295
Unallocated revenue						24,716
Total revenue						799,011
Segment result pre royalties	96,618	11,137	9,044	(888)	(2,724)	113,187
Royalties	8,686	(7,014)		(2,420)	748	
Segment result	105,304	4,123	9,044	(3,308)	(1,976)	113,187
Unallocated revenue less unallocated expenses						8,139
Less Income Tax						121,326
						(39,399)
Net Profit						81,927
Segment Assets	604,345	80,359	203,836	64,904	(9,444)	944,000
Unallocated Assets						17,137
Total assets						961,137
Segment Liabilities	283,832	57,153	117,866	31,862	(11,474)	479,239
Unallocated Liabilities						57,663
Total liabilities						536,902
Acquisitions of property, plant equipment, intangibles and other non-current assets	49,924	5,793	3,095	6,411	-	65,223
Depreciation and Amortisation	22,982	3,436	7,778	5,040	-	39,236
Other non cash expenses	3,149	742	(134)	1,251	-	5,008

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30 June 2004

9 Segment information (continued)

June 2003	Australia \$ ' 000	New Zealand \$ ' 000	United Kingdom \$ ' 000	Other \$ ' 000	Eliminations \$ ' 000	Consolidated \$ ' 000
Total transaction value	2,991,731	510,970	467,321	591,989	(6,756)	4,555,255
Sales to customers outside the economic entity	388,163	74,266	66,304	77,179		605,912
Inter-segment sales	4,415	38	-	280	(4,733)	-
Revenue	392,578	74,304	66,304	77,459	(4,733)	605,912
Unallocated revenue						20,127
Total revenue						626,039
Segment result pre royalties	73,851	15,696	2,293	3,071	(2,991)	91,920
Royalties	14,487	(10,695)		(3,792)		
Segment result	88,338	5,001	2,293	(721)	(2,991)	91,920
Unallocated revenue less unallocated expenses						10,405
Less: income tax						102,325
Net profit						(32,305)
Segment assets	480,448	39,992	195,079	58,312	(689)	773,141
Unallocated assets						23,219
						796,360
Segment liabilities	239,267	32,047	110,140	25,970	859	408,283
Unallocated liabilities						20,467
						428,750
Acquisitions of property, plant equipment, intangibles and other non-current assets	22,486	4,954	104,975	8,197		140,612
Depreciation and Amortisation	20,030	1,983	3,605	4,738		30,356
Other non cash expenses	2,755	178	1,435	(217)		4,151

(a) Accounting policies

Segment information is prepared in conformity with the accounting policies of the entity. Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, property, plant and equipment and goodwill and other intangible assets, net of related provisions. Segment assets and liabilities do not include income taxes.

(b) Unallocated Revenue and Expenses

Unallocated revenue and expenses include such items as interest and foreign exchange gains.

(c) Changes in disclosure

Comparatives for segment disclosures in relation to assets and liabilities have been amended to conform with current year disclosures.

10 Review of operations

The entity maintained its expansion strategy and at 30 June 2004 had 1,139 shops representing an increase of 120, or 12%, on the prior year. Selling staff numbers increased 16% to 5,087 at 30 June 2004 while total staff numbers increased by 1,084 to 6,913.

The principle strategies for Flight Centre Limited are:

- Enhancing productivity; through the development of new booking tools and enhanced internet capabilities, thereby improving staff sales capacity and productivity.
- Increasing land based business; continued focus on the increase on land based business.
- Upstaffing; the increase of staff per shop and the expansion of existing stores.
- Supplier relationships; continue to advance our preferred supplier strategy to achieve mutually beneficial relationships.
- Corporate travel; the continued development of Flight Centre's global corporate brand FCm through expansion and licensing.

Discussion and analysis of consolidated statement of financial position

- o The consolidated net assets have increased 15.4% to \$424.2 million.
- o The primary movements in the statement of financial position are:

	<u>\$Millions</u>
Assets	
Increase in cash	63.6
Increase in plant and equipment	29.7
Increase in other financial assets	51.8
Liabilities	
Increase in payables	94.8

- o Cash at the end of the year is represented by cash at bank, \$126.6 million, and client cash of \$131.5 million. The client cash is held on behalf of clients until suppliers are paid.
- o The increase in other financial assets is represented mainly by secured bonds and represents cash invested to maximise return on liquid funds. Previously these investments have been classified as cash.

Discussion and analysis of consolidated statement of cash flows

Operating cash flow

- o The net cash inflow from operating activities is \$183.5 million. This represents an increase of 44% from the net cash inflow for the prior year of \$127.2 million. The increase is a result both of increased revenues and improved debtor collections.

Investing cash flow

- o The net cash outflow from investing activities is \$111.1 million. This represents a decrease of 37% from the net cash outflow for the prior year of \$177.1 million.
- o This decrease is principally the result of:
 - Reduction in acquisition of controlled entities of \$62 million (Britannic purchased in March 2003)

Financing cash flow

- o The cash outflow from financing activities for the 2004 year is \$15.6 million, compared to a cash inflow for 2003 of \$52 million.
- o Dividends paid in 2004 of \$42.6 million represent an increase of 8%, or \$3.3 million, on that paid in the prior year.
- o There has been a decrease in proceeds from the issue of shares during the year ended 30 June 2004 of \$80 million. This is mainly due to the rights issue in the prior year to raise funds for the purchase of Britannic.
- o In the current year proceeds from borrowings increased \$15 million due to funding for the purchase of the head office building.

11 Compliance statement

The preliminary final report is based on accounts that are in the process of being audited. The audit report will be made available with the company's financial report.

12 Impact of adopting AASB equivalents to IASB Standards

Flight Centre Limited has commenced transitioning policies and financial reporting from current Australian standards to Australian equivalents of International Financial Reporting Standards (IFRS). The company has allocated internal resources and engaged expert consultants to perform diagnostics and conduct impact analysis to isolate key areas that will be impacted by the transition to IFRS. As a result Flight Centre Limited has graded impact areas as critical, moderate or low and is addressing each of the areas in order of priority as represented by the gradings. An IFRS steering committee has been established to oversee progress and make necessary decisions. Flight Centre Limited has focused key project resources on the impact of Australian equivalents to IFRS will have on the long-term decisions and strategies of the company. This has involved an analysis of the information systems, business structures and strategies of the group.

As part of the process in transition to Australian equivalents of IFRS, priority has been given to considering the preparation of an opening balance sheet in accordance with the standards as at 1 July 2004. Set out below are the key areas where accounting policies will change and may have an impact on the financial report of Flight Centre Limited. Analysis of the financial and operational impact of the Australian equivalents is continuing and the following is not an exhaustive list of differences.

At this stage the company has not been able to reliably quantify the impacts on the financial report.

Classification of Financial Instruments

Under AASB 139 'Financial Instruments: Recognition and Measurement', financial instruments will be required to be classified into one of five categories which will, in turn, determine the accounting treatment of the item. The classifications are loans and receivables – measured at amortised cost, held to maturity – measured at amortised cost, held for trading – measured at fair value with fair value changes charged to the net profit or loss, available for sale – measured at fair value with fair value changes taken to equity and non-trading liabilities – measured at amortised cost. This will result in a change in the current accounting policy that does not classify financial instruments. Current measurement is at amortised cost, with certain derivative financial instruments not recognised on balance sheet. The future financial effect of this change in accounting policy is not yet known as the classification and measurement process has not yet been fully completed.

Hedge Accounting

Under AASB 139, in order for a financial instrument to qualify for hedge accounting, the company is required to meet the following criteria:

- Identified the type of hedge – fair value or cash flow;
- Identify the hedged item or transaction;
- Identify the nature of the risk being hedged;
- Identify the hedging instrument;
- Demonstrate that the hedge has and will continue to be highly effective; and
- Document the hedging relationship, including the risk management objectives and strategy for undertaking the hedge and how effectiveness will be tested.

This will result in a change in the current accounting policy, which applies hedge accounting to its forward foreign exchange contracts. The contracts are general hedges and are currently not separately identified and documented in accordance with the requirements of AASB 139. New procedural requirements are being implemented to ensure that hedge accounting, in accordance with AASB 139, can be applied.

The current requirements of AASB 1012 'Foreign Currency Translation', regarding the early termination of foreign exchange hedges, enables the deferral of gains and losses in the balance sheet until the anticipated transaction occurs. Under AASB 139, all gains and losses from early termination of foreign currency hedges will go through the Statement of Changes in Equity until the anticipated transaction occurs.

Reliable estimation of the future financial effect of the change in accounting policy has not yet been measured.

Goodwill

Under AASB3 'Business Combinations', goodwill will no longer be able to be amortised but instead will be subject to annual impairment testing. This will result in a change in the group's current accounting policy, which amortises goodwill over its estimated useful life but not exceeding 20 years. Under the new policy, amortisation will no longer be charged, but goodwill will be written down to the extent it is impaired. Reliable estimation of the future financial effects of this change in accounting policy is impracticable because the conditions under which impairment will be assessed are not yet known.

Impairment of Assets

Under AASB 136 'Impairment of Assets', the recoverable amount of an asset is determined as the higher of net selling price and value in use. This will result in a change in the group's current accounting policy, which determines the recoverable amount of an asset on the basis of undiscounted net cash flows. Under the new policy the value in use shall be calculated using forecasted operational cash flows, using a discount rate appropriate to the risk of the asset. This method may reduce the calculated value in use and therefore increase the probability of impairment. Reliable estimation of the future financial effects of this change in accounting policy is impracticable because the conditions under which impairment will be assessed are not yet known.

12 Impact of adopting AASB equivalents to IASB Standards (cont'd)

Intangible Assets

Under AASB 138 'Intangible Assets', costs incurred in the research phase of the development of an internally generated intangible must be expensed. This will result the group's current accounting policy, which allows for the capitalisation of costs incurred in the research phase of an internally generated intangible asset where future economic benefits are expected beyond reasonable doubt. Under the new policy, all research costs will be written off as incurred and all research costs currently capitalised will be derecognised against opening retained earnings. Reliable estimation of the future financial effect of this change in accounting policy has not yet been measured.

The requirements of AASB 138, do not allow the recognition of internally generated software licenses. This differs from the current accounting policy in the recognition and revaluation of internally generated software licenses. The change in accounting policy will require Flight Centre Limited to derecognise internally generated software licenses of \$16,181,600 against the Asset Revaluation Reserve and Opening Retained Earnings.

Share Based Payments

Under AASB 2 'Share based payments', the company will be required to determine the fair value of options issued to employees as remuneration and recognise and expense in the Statement of Financial Performance. The current policy of Flight Centre Limited is not to recognise an expense for share based payments. This standard is not limited to options and also extends to other forms of equity base remuneration as described in the financial statements. The standard applies to all share based payments issued after 7 November 2002, which have not vested as at 1 January 2005. Reliable estimation of the future financial effects of this change in accounting policy is impracticable as the details of future equity based remuneration plans are unknown.