FLIGHT CENTRE LIMITED

PROPOSAL TO OFFER MINORITY SHAREHOLDERS $17.20 PER SHARE TO BE RECOMMENDED BY INDEPENDENT DIRECTORS

25 October 2006

- Proposal to offer minority shareholders $17.20 per share, consisting of a cash payment of $17.00 per share and a $0.20 fully franked special dividend via a scheme of arrangement
- Proposed offer to minority shareholders has the unanimous support of the Independent Directors and the Independent Directors intend to recommend acceptance, in the absence of a superior offer

The Independent Directors of Flight Centre Limited ("Flight Centre") (ASX: FLT), Mr Bruce Brown (Chairman) and Mr Howard Stack, announced today that Flight Centre has signed a binding agreement ("Agreement") for a consortium, comprising the Flight Centre founders[1] ("the Founders") and funds advised by Pacific Equity Partners Pty Limited ("PEP") (collectively "the Consortium"), to pursue a transaction which, if implemented, would result in the Consortium, through a joint venture vehicle ("BidCo"), owning all of the shares in Flight Centre ("Proposed Transaction"). Flight Centre has granted the Consortium an exclusivity period to finalise negotiations and document the Proposed Transaction.

Under the Proposed Transaction, shareholders in Flight Centre other than the Founders ("Minority Shareholders") would be offered $17.20 per share, consisting of a cash payment by Bidco of $17.00 per share and a $0.20 fully franked special dividend payable by Flight Centre to all shareholders conditional on implementation of the scheme to be voted on by the Minority Shareholders.

An offer of $17.20 per share to Minority Shareholders would value Flight Centre's equity at over $1.62 billion and represent:

- a premium of 39.1% above the volume weighted average share price of Flight Centre in the past three months
- a premium of 50.6% above the volume weighted average share price of Flight Centre in the past six months
- a premium of 39.8% above Flight Centre's closing price of $12.30 per share on 21 September 2006 (the day prior to the first appearance of general speculation relating to the potential for privatisation of a number of

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- a premium of 29.5% above average broker[2] valuations and a premium of 37.3% above average broker[2] price targets

An offer to Minority Shareholders at $17.20 per share would value Flight Centre at 12.4x FY06 EBITDA, which is above the average of recent comparable travel related transactions and compares to the FY06 EBITDA multiple of 10.0x calculated using Flight Centre's closing price on 24 October 2006.

The Independent Directors intend to recommend the Proposed Transaction subject to the Consortium and Flight Centre entering into a Merger Implementation Agreement on acceptable terms including the pricing set out above and subject to receiving advice from Ernst & Young Transaction Advisory Services as independent expert.

The structure of the Proposed Transaction involves:

- minority shareholders receiving $17.20 comprising $17.00 from BidCo in exchange for their shares pursuant to a scheme of arrangement and a special dividend of $0.20 payable to all shareholders

- the Founders selling some of their shares in Flight Centre to Bidco for cash under the scheme of arrangement ("Sale Shares") and exchanging the balance of their shareholdings in Flight Centre for equity in BidCo. The current negotiations between the parties contemplate that of the current 57.7% of Flight Centre issued shares held by the Founders, approximately 32.6% will be acquired by Bidco for cash under the scheme of arrangement and approximately 25.1% will be exchanged for equity in Bidco

- The Founders anticipate having a percentage ownership of BidCo after the scheme of arrangement is implemented which is at least as large as their current holding in Flight Centre.

Following feedback from the Independent Directors, the Proposed Transaction involves the Founders receiving a cash payment by Bidco of $13.80 per sale share and the special dividend. It is considered by the Independent Directors that Minority Shareholders, being offered $17.20 per share, will benefit from a significant premium to the cash price being paid for the Founders' Shares.

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[2] Based on recent broker reports from Macquarie Research Equities, GoldmanSachs JBWere, ABN AMRO Morgans, Credit Suisse, and Wilson HTM (UBS Investment Research is excluded as the report is considered dated).

Flight Centre Chairman Bruce Brown on behalf of the Independent Directors said,
"Flight Centre Independent Directors unanimously support putting the proposals to minority shareholders and have agreed with the consortium to actively progress the offer.

"We believe this proposal can unlock significant value for minority shareholders and that minority shareholders should have the opportunity to consider and vote on the offer. The offer of $17.20 per share represents a significant premium to recent trading levels and broker valuations.

"Subject to finalising documentation, and receiving advice from the independent expert as to whether the offer is in the best interests of minority shareholders, we intend to recommend the offer to minority shareholders in the absence of a superior offer emerging."

Consortium member and Flight Centre's Chief Executive Officer, Graham Turner said:

"The price offered to Minority Shareholders represents a fair price for Flight Centre, valuing the company at $1.62 billion."

"Given the uncertain and challenging outlook for the travel industry, we believe the public market is not the best structure to support the business in this period of its lifecycle. A privatisation of Flight Centre will enable us to reinvest in the Company and continue to focus our business model in order to improve our responsiveness to rapidly changing industry dynamics.

"The Founders have chosen PEP to support us in this process and to help us build value in the business over the long term."

Mr Turner will remain Chief Executive Officer and Managing Director of Flight Centre after this transaction is completed.

The Consortium and Flight Centre's Independent Directors have agreed to use their best endeavours in good faith to explore the potential implementation of an off market buyback structure or other alternative capital management mechanisms for the Proposed Transaction to enhance value for Flight Centre shareholders. It is not intended that any such mechanism would increase the overall cash proceeds to shareholders as part of this transaction.

The Agreement between the Consortium and Flight Centre is attached as an annexure to this announcement. Under the Agreement, Flight Centre has agreed to negotiate exclusively with the Consortium in relation to the Proposed Transaction for a specified period subject to certain conditions. The Proposed Transaction will be subject to conditions set out in the Merger Implementation Agreement including a usual FIRB condition.

ABN AMRO Morgans Corporate and Allens Arthur Robinson are advising the Independent Directors of Flight Centre. Caliburn Partnership, Gilbert + Tobin, Freehills and PricewaterhouseCoopers are advising the Consortium. Financing to the Consortium is being provided by Credit Suisse and ANZ.

Contact Details

For further information, please contact:

Flight Centre Haydn Long 0418 750 454	Consortium Ron Malek / Jamie Garis Caliburn Partnership 0411 422 885 / 0412 581 917
Tim Crommelin / Anthony Kirk ABN AMRO Morgans Corporate (07) 3334 4889 / (07) 3334 4898	Chris Lacy Third Person 0408 784 998

Appendix A

Agreement between Flight Centre and the Consortium

Agreement in relation to Proposed Transaction

1 Proposed Transaction

The parties agree to pursue a transaction on the basis of the proposed terms set out in the Announcement (see Attachment 1) which, if implemented, would result in BidCo owning all of the shares in FCL (**Proposed Transaction**). It is currently contemplated that if the Proposed Transaction proceeds, it will be implemented by a scheme of arrangement between FCL and its shareholders.

The parties further agree to use their best endeavours and to work in good faith (including by obtaining appropriate advice) to enhance the benefit able to be derived by FCL shareholders from the consideration payable under the Proposed Transaction by means of any available alternative capital management mechanisms for the Proposed Transaction.

2 Status of agreement

This agreement is binding on the parties and can be enforced by any party, PEP and the Founders despite the fact that PEP and the Founders are not a party to this agreement.

3 Announcement

The parties must make the agreed joint announcement in the form of Attachment 1 upon execution of this agreement.

4 Exclusivity

4.1 Exclusivity

Subject to clauses 4.3 and 4.4, during the Exclusivity Period, FCL must not, and must use its best endeavours to ensure that its Representatives do not, except with the prior consent of BidCo:

(a) directly solicit, encourage or invite, any enquiries, discussions or proposals in relation to, or which may reasonably be expected to lead to, a Third Party Proposal;

(b) initiate any discussions or negotiations in relation to, or which may reasonably be expected to lead to, a Third Party Proposal or which might otherwise lead to the Proposed Transaction not proceeding;

(c) enter into any discussion, agreement, arrangement or understanding in relation to or which may reasonably be expected to lead to a Third Party Proposal (other than confidentiality arrangements on ordinary commercial terms in relation to the Third Party Proposal) ; or

(d) communicate to any person an intention to do any of the things referred to in clauses 4.1(a) to (c).

4.2 Notification of approaches

(a) During the Exclusivity Period, FCL will promptly advise BidCo in writing of:

(i) any approach, inquiry or proposal made to, and any attempt to initiate or continue negotiations or discussions with, FCL or any of its Representatives with respect to any Third Party Proposal, whether unsolicited or otherwise;

(ii) any request for information relating to FCL or any of its Related Entities or any of their businesses or operations or any request for access to the books or records of FCL or any of its Related Entities, which FCL has reasonable grounds to suspect may relate to a current or future Third Party Proposal;

(iii) any provision by FCL or any of its Representatives of any information relating to FCL or any of its Related Entities or any of their businesses or operations to any person in connection with or for the purposes of a current or future Third Party Proposal; and

(iv) any action by FCL, or any intention of FCL to take any action, in reliance on clause 4.4.

(b) FCL will not respond to any Third Party Proposal unless:

(i) clause 4.4 applies;

(ii) FCL has notified BidCo in writing of the key details of the proposal within two business days of receiving the proposal (unless the Third Party Proposal is expressed to prohibit or restrict FCL from doing so and the FCL board, acting in good faith, determines after having taken advice from its financial and legal advisers that it was in the best interests of FCL to accept that prohibition or restriction on the basis that the criteria in sub clauses 4.4(a) and (b) are satisfied in relation to the Third Party Proposal); and

(iii) FCL used all reasonable endeavours to provide BidCo with up to three business days (or such lesser period as may be available in accordance with the terms of the Third Party Proposal) to match the terms of the Third Party Proposal.

4.3 Normal provision of information

Nothing in this clause 4 prevents FCL from:

(a) providing information to its Representatives;

(b) providing information required to be provided to ASX, ASIC or the Takeovers Panel; or

(c) making presentations to brokers, portfolio investors or analysts in the ordinary and usual course of business.

4.4 Exceptions to exclusivity

FCL may only provide information under clause 4.2(a)(iii) or undertake any action that would otherwise be prohibited by clause 4.1(c) or (d) (to the extent that it relates to clause 4.1(c)) in relation to a bona fide Third Party Proposal or which might otherwise lead to the Proposed Transaction not proceeding) which was not solicited by FCL and was not otherwise brought about as a result of any breach by FCL of its obligations under this clause 4, where:

(a) the Third Party Proposal is made in writing by or on behalf of a person who FCL considers is of reputable commercial standing;

(b) the FCL Board, acting in good faith, determines after having taken advice from its financial and legal advisers that the Third Party Proposal is:

(i) capable of being valued and completed, taking into account all aspects of the Third Party Proposal or the proposal and the person making it; and

(ii) more favourable to the FCL shareholders than the Proposed Transaction, taking into account all the terms and conditions of the Third Party Proposal or the proposal; and

(c) the FCL board provides a copy of advice received from its financial advisers under clause 4.4(b) to BidCo.

5 Condition

To the extent that this agreement may cause PEP or BidCo to acquire a relevant interest in any of the Founder Shares, this agreement is subject to a condition subsequent that the acquisition of that relevant interest under this agreement is exempted by ASIC from the provisions of Chapter 6 of the Corporations Act under section 655A of the Corporations Act by no later than 30 November 2006. Further, the parties agree and acknowledge that:

(a) this agreement does not confer any control over, or the power to substantially influence, the exercise of a voting right attached to the Founder Shares; and

(b) nothing in this paragraph has the consequence that the obligations in this agreement (including in clause 4) are not legally binding and enforceable on and from the time that this agreement is executed.

6 BidCo

BidCo enters into this agreement on its on behalf and also on behalf of the Founders and PEP and holds all rights, remedies and benefits it has, or may have, under this agreement on its own behalf and on trust for, and for the benefit of, each Founder and PEP despite the fact that the Founders and PEP are not parties to this agreement. BidCo warrants that it has the authority of PEP and each Founder to enter into this agreement on their behalf.

7 Governing Law

This agreement is governed by the laws of Queensland.

8 Severance

Any term of this agreement which is wholly or partially void, unlawful, unenforceable or an unacceptable circumstance under the Corporations Act is severed to the extent (but only to the extent) that it is void, unenforceable, unlawful or an unacceptable circumstance. The validity or enforceability of the remainder of this agreement is not affected.

9 Definitions

Capitalised words or expressions used in this agreement, have the meaning given to those words or expressions in Schedule 1.

Executed as a agreement.

Signed and delivered by **Flight Centre Limited by:**

Signature of director

BRUCE BROWN

Name of director (print)

Signature of director/~~secretary~~ HS

HOWARD SPACK

Name of director/secretary (print)

Signed and delivered by **Gainsdale Sub Pty Limited by:**

Signature of director

Graham Turner

Name of director (print)

Signature of director/secretary

Robert Koczkar

Name of director/secretary (print)

Schedule 1 – Definitions

In this agreement:

(a) **Advisers** means FCL's legal, financial and other expert advisers.

(b) **BidCo** means Gainsdale Sub Pty Limited (ACN 122 337 188).

(c) **Corporations Act** means Corporations Act 2001 (Cth).

(d) **Exclusivity Period** means the period from and including the date of this agreement to and including 14 November 2006, provided that if the condition in clause 5 is not satisfied by 14 November 2006, the period is extended until the earlier of:

   (i) 30 November 2006; and

   (ii) the date that ASIC refuses relief or indicates to BidCo that any relief will be on conditions that are unacceptable to BidCo.

(e) **FCL** means Flight Centre Limited (ACN 003 377 188).

(f) **Founder Shares** means the shares in FCL held (indirectly through interposed entities) by the Founders.

(g) **Founders** means each of Graham Turner, Geoff Harris, Bill James, Jim Goldburg and Chris Grieve.

(h) **Officer** means FCL's directors, officers, partners and employees.

(i) **PEP** means Pacific Equity Partners Fund III, comprising the following entities:

   (i) Pacific Equity Partners Fund III (Australasia) Pty Limited as trustee for the Pacific Equity Partners Fund III (Australasia) Unit Trust (being an Australian unit trust);

   (ii) Pacific Equity Partners Fund III L.P. (being a Delaware limited partnership);

   (iii) Pacific Equity Partners Fund III (Australasia) Pty Limited as trustee for the Pacific Equity Partners Supplementary Fund III (Australasia) Unit Trust (being an Australian unit trust);

   (iv) Pacific Equity Partners Supplementary Fund III, L.P. (being a Delaware limited partnership);

   (v) Eagle Coinvestment Pty Limited as trustee for the Pacific Equity Partners Fund III Co-investment Trust A (being an Australian unit trust);

   (vi) PEP Investment Pty Limited; and

   (vii) any other collective investment vehicles (or other similar arrangements) established by the general partner of the Pacific Equity Partners Fund III L.P. for certain types of investors with investment objectives substantially similar to those of the Pacific Equity Partners Fund III L.P.

(j) **Related Entity** has the meaning given to that expression in the Corporations Act.

(k) **Representative** means:

   (i) each of FCL's Related Entities; and

(ii) each of the Officers and Advisors of FCL or any of its Related Entities.

(l) **Third Party Proposal** means any expression of interest, proposal or offer by any person (other than BidCo or any of its Related Entities) to evaluate or enter into any transaction which is similar to the Proposed Transaction (whether a scheme of arrangement, a takeover bid or otherwise) or under which other than as required or contemplated by the scheme:

(i) that person (together with its associated) may acquire a relevant interest in more than 5% of the FCL Shares or the issued shares of any Related Entity of FCL (including an interest by way of swaps or other equivalent instruments);

(ii) that person may acquire voting power of more than 5% in FCL or any Related Entity of FCL;

(iii) that person may acquire, directly or indirectly (including by way of joint venture, dual listed company structure, strategic alliance or otherwise), any interest in all or a substantial art of the business or assets of the FCL or the FCL Group;

(iv) that person may otherwise acquire control of or merge or amalgamate with FCL or any Related Entity of FCL;

(v) FCL will issue a material amount of its share capital as consideration for the assets or share capital of another person; or

(vi) FCL will effect or implement any reorganisation, recapitalisation or dissolution.

Attachment 1- Announcement

FLIGHT CENTRE LIMITED

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Appendix A

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