

**Flight Centre Limited** Annual Report 2006



## Our Vision

To be the world's **most exciting** travel company, delivering an **amazing experience** to our **people, customers** and **partners**.

## Worldwide Top Performers

**Wayne Ackerfeld**  
Top Retail Consultant



**Melanie Waters-Ryan & Dayle White**  
Directors' Award



**Allison Bourne**  
Top Ticket Centre Consultant



**Joell Ogilvie**  
Hall of Fame



**Margaret Mulholland**  
Hall of Fame



**Andrew Bliesner**  
Hall of Fame



**Dean Horvath**  
Top Corporate Account Manager



**David Chappell**  
Top Infinity Consultant



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This annual report covers both Flight Centre Limited as an individual entity and the consolidated entity consisting of Flight Centre Limited and its subsidiaries. The financial report is presented in Australian currency.

Flight Centre Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

**Flight Centre Limited**  
**316 Adelaide Street**  
**BRISBANE QLD 4000**

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities in the directors' report, both of which are not part of this financial report.

The financial report was authorised for issue by the directors on 13 September 2006.

Flight Centre Limited ABN 25 003 377 188

# Directors' Report

Your directors present their report on the consolidated entity consisting of Flight Centre Limited and the entities it controlled at the end of, or during, the year ended 30 June 2006.

## Directors

The following persons were directors of Flight Centre Limited during the financial year and up to the date of this report:

G.F. Turner  
P.F. Barrow  
H.L. Stack  
B.R. Brown (Appointed 20 December 2005)  
S.J. Flynn (Resigned 1 September 2005)  
G.L. Harris (Alternate for directors listed above)

## Principal activities

The principal continuing activities during the year of the consolidated entity, constituted by Flight Centre Limited and the entities it controlled from time to time during the year, consisted of the selling of international and domestic travel. There were no significant changes in the nature of the activities of the consolidated entity during the year.

## Dividends – Flight Centre Limited

Dividends paid to members during the financial year were as follows:

	2006 \$'000	2005 \$'000
Final ordinary dividend for the year ended 30 June 2005 of 28 cents (2004 – 40.5 cents) per fully paid share paid on 14 October 2005, fully franked	26,497	38,085
Interim ordinary dividend for the year ended 30 June 2006 of 20 cents (2005 – 22.5 cents) per fully paid share paid on 24 March 2006, fully franked	18,894	21,565
Special dividend for the year ended 30 June 2004 of 40 cents per fully paid share paid 26 November 2004, fully franked	-	37,614
	45,391	97,264

In addition to the above dividends, since the end of the financial year the directors have recommended the payment of a final ordinary dividend of \$30,230,731 (32.0 cents per fully paid share) to be paid on 13 October 2006 out of retained profits at 30 June 2006.

## Review of operations

A summary of consolidated results is set out below:

	2006 \$'000	2005 \$'000
Profit before income tax expense	120,002	115,591
Income tax expense	(40,092)	(38,732)
Profit for the year	79,910	76,859

A review of the company and its controlled entities and the results of those operations for the year are contained in the Concise Annual Report.

## Earnings per share

	2006 Cents	2005 Cents
Basic earnings per share	84.6	81.4
Diluted earnings per share	84.5	81.4

# Directors' Report (cont.)

## Matters subsequent to the end of the financial year

On 21 August 2006 Flight Centre Limited entered a binding sale agreement for 316 Adelaide Street, Brisbane. Under the terms of this agreement, Flight Centre Limited will receive proceeds from the sale of \$35.5 million and recognise a gain on sale (before tax) of \$23.3 million. Under the terms of the agreement, Flight Centre will lease back approximately 70% of the building under commercial terms and conditions until 2013.

Other than this transaction, no other matter or circumstance has arisen since 30 June 2006 that has significantly affected, or may significantly affect:

- (a) the consolidated entity's operations in future financial years, or
- (b) the results of those operations in future financial years, or
- (c) the consolidated entity's state of affairs in future financial years.

## Likely developments and expected results of operations

Further information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this annual report because the directors believe it would be likely to result in unreasonable prejudice to the group.

## Environmental regulation

The consolidated entity has assessed whether there are any particular or significant environmental regulations which apply to it and has determined that there are none.

### Particulars of directors' interests in shares and options of: Flight Centre Limited

Director	Experience	Special responsibilities	Ordinary Shares	Options
<b>G.F. Turner</b> BVSc Age: 57	Founding director of Flight Centre Limited with significant experience in running retail travel businesses in Australia, New Zealand, USA, UK, South Africa and Canada.	Executive chairman 28 July 2005 - 29 March 2006  Member remuneration committee	17,232,362	-
<b>P.F. Barrow</b> FCA, FAICD Age: 55	Director of Flight Centre Limited since 1995. Director of Oaks Hotels & Resorts Limited and Cluff Resources Pacific NL, senior partner of chartered accounting firm MBT. Over 25 years experience with retail travel companies.	Independent non executive director  Appointed chairman of audit committee 28 July 2005	80,800	20,000
<b>H.L. Stack</b> BA, LLB Age: 61	Director of Flight Centre Limited since August, 1995. Chairman of Magnetica Limited, director of Abney Limited and Brisbane Grammar School Trustees, former director of Data 3 Limited and Voxson Ltd. Former partner of the legal firm, Allens Arthur Robinson.	Independent non executive director  Appointed a member of the audit committee 28 July 2005	42,288	20,000
<b>G.L. Harris</b> Age: 55	Founding director of Flight Centre Limited. In excess of 25 years experience in retail travel. Ran his own successful retail travel business before merging it with Flight Centre in 1987. Director of Boost Juice.	Alternate	16,257,130	-
<b>B.R. Brown</b> BCom, AAUQ Age: 61 (Appointed 20 December 2005)	Director of Transpacific Industries Group Ltd and Campbell Brothers Limited. Previous managing director and chief executive officer of Campbell Brothers Limited from 1990 to 2005.	Appointed chairman 30 March 2006  Member of audit committee  Member remuneration committee	5,000	-

# Directors' Report (cont.)

## Company secretary

The company secretary is Mr G. Pringle BA, LLB, MBA (UQ), PG Dip IR. Mr Pringle is also currently a director of the Travel Compensation Fund. Before joining Flight Centre Limited in 2002, Mr Pringle was a senior risk management advisor with PricewaterhouseCoopers, head of compliance of a large financial institution and former magistrate and barrister.

## Meetings of directors

	Full meetings of directors		Meetings of committees			
	A	B	Audit		Remuneration	
	A	B	A	B	A	B
<b>G.F. Turner</b>	13	13	*	*	2	2
<b>P.F. Barrow</b>	13	13	6	6	*	*
<b>H.L. Stack</b>	12	13	4	6	*	*
<b>G.L. Harris</b>	5	13	*	*	*	*
<b>B.R. Brown (Appointed 20 December 2005)</b>	7	7	2	2	*	*
<b>S.J. Flynn (Resigned 1 September 2005)</b>	3	3	1	2	*	*

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the year

\* = Not a member of the relevant committee

## Remuneration report

### A. Principles used to determine the nature and amount of remuneration (audited)

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. Underpinning this framework is the core philosophy of "ownership by our people", which ensures opportunities for employees to invest in their own success. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

The company has structured an executive remuneration framework that is market competitive and complementary to the organisation's reward strategy.

The framework provides a mix of fixed and variable pay and a blend of short and long-term incentives. As executives gain seniority with the group, the balance of this mix shifts to a higher proportion of "at risk" rewards.

### Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The chairman is not present at any discussions relating to determination of his own remuneration. Directors have elected not to participate in the Flight Centre Limited Employee Option Plan. Directors are not eligible to participate in the Flight Centre Limited Employee Share Plan.

### Directors' fees

Non-executive directors' fees are determined within an aggregate annual directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$400,000 per annum as approved by shareholders on 31 October 2003.

### Executive pay

The executive pay and reward framework has four components:

- base pay and benefits
- short-term performance incentives
- long-term incentives through participation in the Business Ownership Scheme (BOS) program, Flight Centre Limited Employee Option Plan and Employee Share Plan, and
- other remuneration such as superannuation contributions.

The combination of these comprises the executive's total remuneration.

### Base pay

Executives are offered a guaranteed base pay element by the remuneration committee. In keeping with Flight Centre's philosophy of "what gets rewarded gets done", an executive's pay is heavily weighted towards short-term incentives.

# Directors' Report (cont.)

## Superannuation contributions

Executives receive the benefit of superannuation contributions paid to a defined contribution superannuation fund sponsored by Flight Centre Limited. Payments are made in accordance with relevant government legislation.

## Short-term incentives

Executives become entitled to short-term incentives if the company achieves a predetermined profit target or outcome-based key performance indicators ('KPIs') or they achieve a prescribed profit within their divisions. Annual profit targets are set by the remuneration committee and incentives are payable monthly. Using a profit target ensures a variable award is only available when value has been created for shareholders and when returns are consistent with the business plan.

Each executive's short-term incentive target is reviewed frequently during each year to ensure that targets are aligned to group and company strategic goals and that appropriate compensation is achieved.

## BOS interest

An integral part of an executive's position is the opportunity to participate in the Business Ownership Scheme ('BOS') unsecured note program.

The BOS program enables invited staff to invest directly in the operations of their division. Under this program, an executive makes a cash investment to participate in the growth in profits of his or her business area as the receipt of an interest return on investment. The executive is exposed to the risks of his or her business, as returns are not guaranteed by Flight Centre Limited or any of its group companies.

## Share-based compensation

Share-based compensation is made available through the Flight Centre Limited Employee Option Plan, Senior Executive Option Plan and Employee Share Plan.

At the discretion of the Board, certain executives have been granted share options under the rules of the Flight Centre Limited Senior Executive Option Plan as established in March 2006. Options are not granted unless profit performance conditions are met. The maximum options available to each executive is limited to 20,000 for the 2006 and 2007 year.

Directors have not received any options during the year.

Executives are eligible to participate in the Flight Centre Limited Employee Share Plan in line with conditions for all staff generally. The company believes it is important for its people to see the business they run as their business and, accordingly, offers the plan to provide staff with the opportunity to take ownership by investing in Flight Centre Limited shares. Details of the plan are contained in note 42 of the full financial report.

Directors are not eligible to participate in the Employee Share Plan.

## B. Details of remuneration (audited)

### Amounts of remuneration

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 Related Party Disclosures) of the company and consolidated entity consisting of Flight Centre Limited and the entities it controlled for the year ending 30 June 2006 are set out in the following tables.

The key management personnel of Flight Centre Limited include the directors as per page 4 and the following executive officers. The five highest paid executives of the consolidated and parent entities are:

Consolidated Entity		
<b>A. Grigson</b>	Executive General Manager	Corporate
<b>S. Flynn</b>	Chief Executive Officer	(Resigned 1 September 2005)
<b>A. Slingsby</b>	Executive General Manager	North America
<b>D. White</b>	Executive General Manager	South Africa
<b>R. Hamilton</b>	Nation Leader	South Africa
Parent Entity		
<b>A. Grigson</b>	Executive General Manager	Corporate
<b>S. O'Brien</b>	Chief Financial Officer	
<b>D. Burns</b>	Executive General Manager	FCm Travel Solutions Asia Pacific
<b>S. Garrett</b>	Executive General Manager	Leisure
<b>S. Flynn</b>	Chief Executive Officer	(Resigned 1 September 2005)
The other key management personnel of the Group are:		
<b>G. Pringle</b>	Company Secretary	
<b>G. Hogan</b>	Executive General Manager	IT
<b>K. Stanley</b>	Executive General Manager	Marketing
<b>C. Galanty</b>	Executive General Manager	UK
<b>R. Nath</b>	Executive General Manager	India
<b>M. Aponas</b>	Executive General Manager	Franchise and Compliance

Details of the nature and amount of each element of the remuneration of each director of Flight Centre Limited and each of the five officers of the company and the consolidated entity consisting of Flight Centre Limited and the entities it controlled receiving the highest emoluments for the year ended 30 June 2006, and key management personnel of the consolidated entity, are set out in the following tables.



# Directors' Report (cont.)

Key management personnel of Flight Centre Limited (Incorporating consolidated and parent entities)

2006	Short-term benefits			Share-based payments	Post employment benefits			
Name	Cash salary and fees \$	Incentive \$	BOS Interest \$	Share-based payments \$	BOS Termination \$	Super-annuation \$	Termination Benefits \$	Total \$
<b>Non-executive directors</b>								
P.F. Barrow	90,000	-	-	-	-	8,100	-	98,100
H.L. Stack	77,000	-	-	-	-	6,930	-	83,930
B.R. Brown (Appointed 20 December 2005)	61,000	-	-	-	-	5,490	-	66,490
<b>Sub total non-executive directors</b>	<b>228,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,520</b>	<b>-</b>	<b>248,520</b>
<b>Executive directors</b>								
G.F. Turner Managing Director Chief Executive Officer (Appointed 1 September 2005)	-	-	-	-	-	-	-	-
S.J. Flynn Chief Executive Officer (Resigned 1 September 2005)	50,000	30,837	-	-	-	-	550,000	630,837
<b>Sub total executive directors</b>	<b>50,000</b>	<b>30,837</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>550,000</b>	<b>630,837</b>
<b>Key management personnel</b>								
M. Aponas Executive General Manager Franchise and Compliance	125,000	135,673	-	26,168	-	30,209	-	317,050
D. Burns Executive General Manager FCm Travel Solutions Asia Pacific	100,000	317,442	-	-	-	37,570	-	455,012
C. Galanty Executive General Manager UK	142,213	112,150	-	-	-	13,014	-	267,377
S. Garrett Executive General Manager Leisure	150,000	225,004	-	26,168	-	27,401	-	428,573
A. Grigson Executive General Manager Corporate	150,000	394,141	443,040	26,168	-	32,768	-	1,046,117
R. Hamilton Nation Leader South Africa	103,790	445,066	14,751	-	-	-	-	563,607
G. Hogan Executive General Manager Information Technology	125,000	125,977	-	26,168	-	28,198	-	305,343
R. Nath Executive General Manager India	120,256	4,570	-	-	-	7,211	-	132,037
S. O'Brien Chief Financial Officer	150,000	242,244	-	26,168	-	41,983	-	460,395
G. Pringle Company Secretary	137,615	150,000	-	26,168	-	26,589	-	340,372
A. Slingsby Executive General Manager North America	121,229	876,549	-	26,168	-	-	-	1,023,946
K. Stanley Executive General Manager Marketing	100,000	200,000	-	26,168	-	24,398	-	350,566
D. White Executive General Manager South Africa	103,790	392,054	126,157	26,168	-	-	-	648,169
<b>Subtotal key management personnel</b>	<b>1,628,893</b>	<b>3,620,870</b>	<b>583,948</b>	<b>235,512</b>	<b>-</b>	<b>269,341</b>	<b>-</b>	<b>6,338,564</b>
<b>Totals for each component</b>	<b>1,906,893</b>	<b>3,651,707</b>	<b>583,948</b>	<b>235,512</b>	<b>-</b>	<b>289,861</b>	<b>550,000</b>	<b>7,217,921</b>



# Directors' Report (cont.)

2005	Short-term benefits			Share-based payments	Post employment benefits			
Name	Cash salary and fees \$	Incentive \$	BOS Interest \$	Share-based payments \$	BOS Termination \$	Super-annuation \$	Termination benefits \$	Total \$
<b>Non-executive directors</b>								
P.F. Barrow	90,000	-	-	-	-	-	-	90,000
H.L. Stack	80,000	-	-	-	-	7,200	-	87,200
N.C. Fussell (Retired 30 June 2005)	145,000	-	-	-	-	13,050	-	158,050
<b>Sub total non-executive directors</b>	<b>315,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,250</b>	<b>-</b>	<b>335,250</b>
<b>Executive directors</b>								
G.F. Turner Managing Director Chief Executive Officer (Appointed 1 September 2005)	70,692	-	-	-	-	7,200	-	77,892
S.J. Flynn Chief Executive Officer (Resigned 1 September 2005)	150,000	84,372	18,935	-	-	15,660	-	268,967
<b>Sub total executive directors</b>	<b>220,692</b>	<b>84,372</b>	<b>18,935</b>	<b>-</b>	<b>-</b>	<b>22,860</b>	<b>-</b>	<b>346,859</b>
<b>Key management personnel</b>								
M. Aponas Executive General Manager Franchise and Compliance	80,000	172,892	8,134	-	-	14,850	-	275,876
C. Galanty Executive General Manager UK	36,657	15,323	-	-	-	-	-	51,980
S. Garrett Executive General Manager Leisure	146,616	220,106	-	-	-	-	-	366,722
A. Grigson Executive General Manager Corporate	80,000	168,787	456,176	-	200,000	15,840	-	920,803
G. Hogan Executive General Manager Information Technology	59,769	159,858	311,226	-	-	9,699	-	540,552
G. Pringle Company Secretary	60,000	161,668	-	-	-	16,609	-	238,277
J. Sturgess Chief Financial Officer	118,333	298,803	9,590	-	300,000	27,151	-	753,877
A. Slingsby Executive General Manager North America	63,475	199,895	-	-	-	-	-	263,370
A. Spence Executive General Manager Britannic	371,396	83,694	-	-	-	36,600	-	491,690
K. Stanley Executive General Manager Marketing	80,000	151,479	11,126	-	-	17,214	-	259,819
D. White Executive General Manager South Africa	63,199	179,428	47,011	-	-	-	-	289,638
<b>Subtotal key management personnel</b>	<b>1,159,445</b>	<b>1,811,933</b>	<b>843,263</b>	<b>-</b>	<b>500,000</b>	<b>137,963</b>	<b>-</b>	<b>4,452,604</b>
<b>Totals for each component</b>	<b>1,695,137</b>	<b>1,896,305</b>	<b>862,198</b>	<b>-</b>	<b>500,000</b>	<b>181,073</b>	<b>-</b>	<b>5,134,713</b>

# Directors' Report (cont.)

## C. Service agreements (audited)

There are no fixed term service agreements with any director or key management personnel of the consolidated entity. Directors and key management personnel may terminate employment with the company in accordance with statutory notice periods. Termination benefits may become payable in accordance with any contractual arrangements.

## D. Share-based compensation (audited) – Options

Options are granted under the Flight Centre Limited Employee Option Plan (established in October 1997 and amended 31 October 2002) and the Senior Executive Option Plan (March 2006). Options are granted under the plan for no consideration. Options are exercisable over fully paid unissued ordinary shares of the company.

Challenging performance hurdles are set annually on grant date and options vest upon achieving those hurdles. The performance hurdles are generally two fold:

- the total group profit target to be met; and
- the respective business unit must either meet or improve upon a predetermined profit or budget target.

The plan rules provide that the total number of options which can be on issue at any one time is limited such that the number of shares resulting from exercising of all unexercised options does not exceed 5% of the company's then issued capital.

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods are as follows:

Grant date	Expiry date	Exercise price	Value per option at grant date	Date exercisable
30 March 2006	30 March 2011	\$10.66	\$1.96	50% on release of 2006 audited financial statements of the group to the market and 50% on release of 2007 audited financial statements of the group to the market and are granted at no consideration.

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share.

The exercise price of options is based on the weighted average price at which the company's shares are traded on the Australian Stock Exchange during the five trading days immediately before the options were granted.

Details of options over ordinary shares in the company provided as remuneration to each director of Flight Centre Limited and each of the key management personnel of the Flight Centre Limited Group are set out below. When exercisable, each option is convertible into one ordinary share of Flight Centre Limited. Further information on the options is set out in note 42 of the full financial report.

	Number of options granted during the year	Number of options vested during the year
Name	2006	2006
<b>Key management personnel of the group</b>		
M. Aponas	40,000	-
S. Garrett	40,000	-
A. Grigson	40,000	-
G. Hogan	40,000	-
S. O'Brien	40,000	-
G. Pringle	40,000	-
A. Slingsby	40,000	-
K. Stanley	40,000	-
D. White	40,000	-

# Directors' Report (cont.)

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2006 included:

- (a) options are granted for no consideration; each tranche vests and is exercisable on 30 September 2006 and 30 September 2007 respectively.
- (b) exercise price: \$10.66
- (c) grant date: 30 March 2006
- (d) expiry date: 30 March 2011
- (e) share price at grant date: \$11.03
- (f) expected price volatility of the company's shares: 27.91%
- (g) expected dividend yield: 5.11%
- (h) risk free interest rate: 5.25%

## Shares provided on exercise of remuneration options

No options have been exercised during the year for ordinary shares.

Name	Number of ordinary shares issued on exercise of options during the year	
	2006	2005
<b>Directors of Flight Centre Limited</b>		
P.F. Barrow	-	10,000
H.L. Stack	-	10,000
S.J. Flynn	-	20,000
<b>Other key management personnel of the company</b>		
K. Stanley	-	21,000
S. Garrett	-	5,000

The amounts paid per ordinary share by each director and other key management personnel on the exercise of options at the date of exercise were as follows:

Exercise date	Amount paid per share
25 September 2004	\$14.15
25 November 2004	\$14.15
19 August 2004	\$7.62
28 July 2004	\$7.62

No amounts are unpaid on any shares issued on the exercise of options.

## Employee Share Plan

Under the Employee Share Plan, shares are now acquired on market by the Plan Trustee and allotted to the employee, rather than issued as new shares. Shares were allotted to executives M. Aponas and G. Pringle in 2005/06.

## E. Additional information (unaudited)

*Principles used to determine the nature and amount of remuneration: relationship between remuneration and company performance*

The overall level of executive reward takes into account the performance of the consolidated entity over a number of years, with greater emphasis given to the current and prior year.

# Directors' Report (cont.)

## Details of remuneration: incentives and options

For each incentive and grant of options included in Section B above, percentage of available incentive and grant that was paid, or vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria set out in the table below. No part of the incentive is payable in future years. The options vest over two years, provided the vesting conditions are met. No options will vest if the conditions are not satisfied, hence the minimum value of the option yet to vest is nil.

Incentives			Options					
Name	Paid %	Forfeited %	Year granted	Vested %	Forfeited %	Financial years in which options may vest	Minimum total value of grant yet to vest \$	Maximum total value of grant yet to vest \$
M. Aponas	100	-	2006	-	-	2008	-	78,400
D. Burns	100	-	-	-	-	-	-	-
C. Galanty	100	-	-	-	-	-	-	-
S. Garrett	100	-	2006	-	-	2008	-	78,400
A. Grigson	100	-	2006	-	-	2008	-	78,400
R. Hamilton	100	-	-	-	-	-	-	-
G. Hogan	100	-	2006	-	-	2008	-	78,400
R. Nath	100	-	-	-	-	-	-	-
S. O'Brien	100	-	2006	-	-	2008	-	78,400
G. Pringle	100	-	2006	-	-	2008	-	78,400
A. Slingsby	100	-	2006	-	-	2008	-	78,400
K. Stanley	100	-	2006	-	-	2008	-	78,400
D. White	100	-	2006	-	-	2008	-	78,400

Name	A	B
	Remuneration consisting of options %	Value at grant date \$
M. Aponas	30.0	78,400
S. Garrett	19.5	78,400
A. Grigson	7.7	78,400
G. Hogan	28.1	78,400
S. O'Brien	18.1	78,400
G. Pringle	25.0	78,400
A. Slingsby	7.9	78,400
K. Stanley	24.2	78,400
D. White	12.6	78,400

A = The percentage of the value of remuneration consisting of options, based on the value expensed in accordance with AASB 2 Share-based Payment.

B = The value at grant date calculated in accordance with AASB 2 Share-based Payment of options granted during the year as part of remuneration.

# Directors' Report (cont.)

## Loans to directors and executives

There have been no loans entered into with directors and executives during the current reporting period and at 30 June 2006 no loans were in place.

## Shares under option

The following is a summary of the unissued ordinary shares of Flight Centre Limited under option at the date of this report:

Date options granted	Expiry date	Issue price of shares	Number under option
30 November 2001	30 November 2006	\$21.98	40,000
6 September 2002	6 September 2007	\$28.40	12,000
1 November 2002	1 November 2007	\$23.73	40,000
14 February 2003	14 February 2008	\$19.69	24,789
14 July 2003	14 July 2008	\$22.46	19,800
30 March 2006	30 March 2011	\$10.66	360,000
			<b>496,589</b>

## Insurance of officers

The liabilities insured include legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the company or its controlled entities. The officers of the company covered by the insurance policy include all the directors and the company secretary. Disclosure of the premiums paid is prohibited by the insurance contract.

## Proceedings on behalf of the company

No person has applied to the court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the court under section 237 of the Corporations Act 2001.

## Non audit services

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non audit services provided during the year are set out in note 32 of the full financial report.

The board of directors has considered the position and, in accordance with the advice received from the audit committee, is satisfied that the provision of the non audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non audit services by the auditor did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermines the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

## 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 14.

## Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Class Order to the nearest thousand dollars or, in certain cases, to the nearest dollar.

## Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

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



**G.F. Turner**

Director

BRISBANE

13 September 2006

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## Auditor's Independence Declaration

As lead auditor for the audit of Flight Centre Limited for the year ended 30 June 2006, I declare that, 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 audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

*PricewaterhouseCoopers*

PricewaterhouseCoopers



R J Roach  
Partner

Brisbane

13 September 2006

# Financial Report



# Income Statement

		Consolidated		Parent	
	Notes	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Revenue from continuing operations</b>					
Revenue from the sale of travel services	3	973,711	871,108	517,774	530,472
Other revenue from ordinary activities	3	24,968	25,570	44,640	29,585
Total for Revenue from continuing operations		998,679	896,678	562,414	560,057
<b>Other income</b>	4	4,057	1,836	6,286	320
<b>Expenses</b>					
Selling expenses		(761,671)	(691,613)	(403,333)	(375,181)
Administration/support expenses		(105,457)	(75,348)	(75,008)	(84,391)
Finance costs	5	(15,143)	(15,648)	(8,917)	(16,396)
Share of loss of joint venture accounted for using the equity method	18	(463)	(314)	-	-
<b>Profit before income tax expense</b>		120,002	115,591	81,442	84,409
Income tax expense	6	(40,092)	(38,732)	(23,275)	(25,489)
<b>Profit attributable to members of Flight Centre Limited</b>		79,910	76,859	58,167	58,920
<b>Earnings per share for profit from continuing operations and earnings per share for profit attributable to the ordinary equity holders of the company:</b>					
		Cents	Cents		
Basic earnings per share	41	84.6	81.4		
Diluted earnings per share	41	84.5	81.4		

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

# Balance Sheet

		Consolidated		Parent	
	Notes	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	8	274,188	239,604	118,945	106,954
Available for sale financial assets	12	204,831	-	170,627	-
Receivables	9	244,987	211,200	233,214	243,522
Other financial assets	10	-	192,738	-	157,080
Current tax receivables	11	5,596	-	4,291	-
Assets of disposal group classified as held for sale	13	12,179	-	12,179	-
Total current assets		741,781	643,542	539,256	507,556
<b>Non current assets</b>					
Property, plant and equipment	15	78,486	91,239	33,908	46,819
Intangible assets	17	196,086	165,671	8,684	13,113
Deferred tax assets	16	12,206	16,751	5,064	10,593
Other financial assets	14	-	-	154,246	127,226
Investments accounted for using the equity method	18	2,248	2,750	-	-
Total non current assets		289,026	276,411	201,902	197,751
<b>Total assets</b>		<b>1,030,807</b>	<b>919,953</b>	<b>741,158</b>	<b>705,307</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Payables	19	499,824	460,653	262,388	268,342
Borrowings	20	43,662	37,793	75,610	58,429
Provisions	21	3,401	3,116	3,356	2,981
Current tax liabilities	22	2,533	3,144	-	2,041
Total current liabilities		549,420	504,706	341,354	331,793
<b>Non current liabilities</b>					
Payables	23	34,682	17,844	1,395	542
Borrowings	24	27,000	15,000	27,000	15,000
Deferred tax liabilities	25	378	1,025	-	-
Provisions	26	8,442	8,729	8,342	8,395
Total non current liabilities		70,502	42,598	36,737	23,937
<b>Total liabilities</b>		<b>619,922</b>	<b>547,304</b>	<b>378,091</b>	<b>355,730</b>
<b>Net assets</b>		<b>410,885</b>	<b>372,649</b>	<b>363,067</b>	<b>349,577</b>
<b>EQUITY</b>					
Contributed equity	27	260,715	260,602	260,715	260,602
Reserves	28(a)	(7,769)	(11,373)	657	57
Retained profits	28(b)	157,939	123,420	101,695	88,918
<b>Total equity</b>		<b>410,885</b>	<b>372,649</b>	<b>363,067</b>	<b>349,577</b>

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

# Statement of Changes in Equity

		Consolidated		Parent	
	Notes	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Total equity at the beginning of the financial year</b>		<b>372,649</b>	400,467	<b>349,577</b>	383,904
Adjustment on adoption of AASB 132 and AASB 139, net of tax, to reserves	28	(363)	-	(363)	-
<b>Restated total equity at the beginning of the financial year</b>		<b>372,286</b>	400,467	<b>349,214</b>	383,904
Changes in the fair value of available for sale financial assets, net of tax	28	547	-	547	-
Net exchange differences on translation of foreign operations	28	3,003	(11,430)	-	-
<b>Net income recognised directly in equity</b>		<b>3,550</b>	(11,430)	<b>547</b>	-
<b>Profit for the year</b>		<b>79,910</b>	76,859	<b>58,167</b>	58,920
<b>Total recognised income and expense for the year</b>		<b>83,460</b>	65,429	<b>58,714</b>	58,920
Transactions with equity holders in their capacity as equity holders:					
Dividends provided for or paid	7	(45,391)	(97,264)	(45,391)	(97,264)
Employee share options exercised	27	-	3,164	-	3,164
Employee share plan shares issued	42	-	682	-	682
Employee share options	28	416	57	416	57
Tax effect of previous share issues	27	114	114	114	114
		(44,861)	(93,247)	(44,861)	(93,247)
<b>Total equity at the end of the financial year</b>		<b>410,885</b>	372,649	<b>363,067</b>	349,577

The above statement of changes in equity should be read in conjunction with the accompanying notes.

# Cash Flow Statement

		Consolidated		Parent	
	Notes	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Cash flows from operating activities					
Receipts from customers (including GST)		1,021,427	885,005	577,540	536,555
Payments to suppliers and employees (including GST)		(862,853)	(736,025)	(502,429)	(451,963)
		158,574	148,980	75,111	84,592
Dividends received		-	-	5,772	-
Interest received		24,078	24,891	25,963	21,792
Royalties received		-	-	12,173	8,660
Interest paid		(16,982)	(16,059)	(8,917)	(13,280)
Income taxes paid		(42,696)	(40,216)	(33,391)	(34,870)
Net cash (outflow) inflow from operating activities	40	122,974	117,596	76,711	66,894
Cash flows from investing activities					
Payment for purchase of businesses, net of cash acquired	36	(18,965)	(22,727)	(27,020)	(20,280)
Payments for property, plant and equipment	15	(22,827)	(31,840)	(9,199)	(18,181)
Payments for intangibles		(13,228)	(19,425)	(1,179)	(2,248)
Payments for investments		(75,002)	(44,941)	(70,710)	(31,399)
Proceeds from sale of investments		63,171	94,427	57,448	82,219
Proceeds from sale of property, plant and equipment		4,354	1,536	625	165
Net cash (outflow) inflow from investing activities		(62,497)	(22,970)	(50,035)	10,276
Cash flows from financing activities					
Proceeds from issues of shares and other equity securities		-	3,846	-	3,846
Proceeds from borrowings		12,000	53,558	75,033	49,624
Repayment of borrowings		(5,600)	(57,552)	(45,853)	(52,999)
Dividends paid to the company's shareholders	7	(45,391)	(97,264)	(45,391)	(97,264)
Repayment of lease liabilities		-	(21)	-	-
Net cash inflow (outflow) from financing activities		(38,991)	(97,433)	(16,211)	(96,793)
Net increase (decrease) in cash held					
		21,486	(2,807)	10,465	(19,623)
Cash and cash equivalents at the beginning of the financial year		238,728	240,296	106,954	124,568
Effects of exchange rate changes on cash and cash equivalents		1,629	1,239	1,526	2,009
Cash and cash equivalents at end of year	8	261,843	238,728	118,945	106,954
Financing arrangements	24				

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

# Notes to and Forming Part of the Financial Statements

## 1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Flight Centre Limited as an individual entity and the consolidated entity consisting of Flight Centre Limited and its subsidiaries.

### (a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

#### *Statement of Compliance*

This is the first financial report prepared based upon AIFRS and the comparatives for the year ended 30 June 2005 have been restated accordingly. AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied in preparing these financial statements.

Financial statements of Flight Centre Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing Flight Centre Limited's 2006 financial statements, management has amended certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures in respect of 2005 were restated to reflect these adjustments. The group has taken the exemption available under AASB 1 to only apply AASB 132 and AASB 139 from 1 July 2005.

#### *Historical cost convention*

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available for sale financial assets and financial assets and liabilities (including derivative instruments) at fair value through profit and loss.

### (b) Principles of consolidation

#### (i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Flight Centre Limited ("company" or "parent entity") as at 30 June 2006 and the results of all subsidiaries for the year then ended. Flight Centre Limited and its subsidiaries together are referred to in this financial report as the group or the consolidated entity.

Subsidiaries are all those entities over which the group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group (refer to note 1(g)).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Flight Centre Limited.

#### (ii) Joint ventures

Interests in joint venture entities are accounted for in the consolidated financial statements using the equity method and are carried at cost by the parent entity. Under the equity method, the share of the profits or losses of the joint venture entity is recognised in the income statement. The share of movements in reserves is recognised in reserves in the balance sheet. Details relating to the joint venture are set out in note 18.

### (c) Foreign currency translation

#### (i) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Flight Centre Limited's functional and presentation currency.

#### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

# Notes to and Forming Part of the Financial Statements (cont.)

## 1. Summary of significant accounting policies (cont.)

### (iii) Foreign operations

The results and financial position of all the foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognised as a separate component of equity.

Exchange differences arising from the translation of any net investment in foreign operations and of borrowings and other currency instruments designated as hedges of such investments are taken to shareholders' equity. When a foreign operation is sold or borrowings repaid, a proportionate share of such exchange differences is recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and translated at the closing rate.

### (d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised for the major business activities as follows:

#### (i) Revenue from travel services

Revenue from the sale of travel services is recorded at the time of issuing travel documents.

#### (ii) Total Transaction Value

Total Transaction Value (TTV) does not represent revenue in accordance with AIFRS. 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.

#### (iii) Lease Income

Lease income from operating leases is recognised as income on a straight line basis over the lease term.

#### (iv) Interest income

Interest income is recognised on a time proportion basis using the effective interest method, (see note 1(j)). When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

### (e) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if it arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

#### Tax consolidation legislation

Flight Centre Limited and its wholly owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2003.

The head entity, Flight Centre Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right.

# Notes to and Forming Part of the Financial Statements (cont.)

## 1. Summary of significant accounting policies (cont.)

In addition to its own current and deferred tax amounts, Flight Centre Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group. Details about the tax funding agreement are disclosed in note 6.

### (f) Leases

Leases of property, plant and equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term payables. Interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

All leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

### (g) Acquisition of assets

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their fair value as at the acquisition date. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

### (h) Impairment of assets

Assets that have an indefinite useful life, such as goodwill, are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired.

Assets that are subject to amortisation are reviewed for impairment when there is any indication that an asset may be impaired. Where an indicator of impairment exists, the group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of the asset's fair value less costs to sell and value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash generating unit to which the asset belongs. In determining cash generating units, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

### (i) Trade receivables

Trade receivables, which generally have a term of not greater than 90 days, are recognised initially at fair value and subsequently measured at amortised cost less an allowance for doubtful debts. An estimate for doubtful debts is made when there is objective evidence that the full amount is no longer probable of being collected. Bad debts are written off when identified.

Trade receivables relating to volume incentives are recognised at the amount receivable when it is probable annual targets will be achieved.

### (j) Investments and other financial assets

*From 1 July 2004 to 30 June 2005*

The company has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005. The group has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

Under previous AGAAP, interests in listed and unlisted securities, other than subsidiaries and associates, are brought to account at cost and dividend income is recognised in the income statement when receivable.



# Notes to and Forming Part of the Financial Statements (cont.)

## 1. Summary of significant accounting policies (cont.)

*Adjustments on transition date: 1 July 2005*

The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 is that fair value is the measurement basis. Changes in fair value are either taken to the income statement or to the equity reserve. At the date of transition (1 July 2005) changes to carrying amounts are taken to retained earnings or reserves.

For further information concerning the adjustments on transition date reference should be made to the following notes:

- Available for sale financial assets – note 12
- Other financial assets – note 10
- Reserves and retained profits – note 28

*From 1 July 2005*

Investments in securities are classified as available for sale and are initially recognised on trade date at fair value plus transaction costs. After initial recognition, investments classified as available for sale are measured at fair value.

Gains or losses arising from changes in the fair value of available for sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

### **(k) Derivatives**

The group uses derivative financial instruments such as foreign exchange contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are stated at fair value. The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The method of recognising the resulting gain or loss depends on whether the derivative is designated as an effective hedging instrument and, if so, the nature of the item being hedged. The group designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

#### **(i) Fair value hedge**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

#### **(ii) Cash flow hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non financial asset or a non financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

#### **(iii) Derivatives that do not qualify for hedge accounting**

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

### **(l) Property, plant and equipment**

Buildings and other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation on assets is calculated on a straight line basis over their estimated useful lives as follows:

Buildings	40 years
Plant and equipment	28 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(h)).

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement.

# Notes to and Forming Part of the Financial Statements (cont.)

## 1. Summary of significant accounting policies (cont.)

### (m) Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

### (n) Employee benefits

#### (i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

#### (ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

#### (iii) Retirement benefit obligations

The company provides benefit to employees on retirement through a defined contribution superannuation fund. Contributions to the defined contribution fund are recognised as an expense as they become payable.

#### (iv) Share-based payments

Share-based compensation benefits are provided to employees via the Flight Centre Limited Employee Option Plan and the Employee Share Plan. Information relating to these schemes is set out in note 42.

##### Shares options granted before 7 November 2002 and/or vested before 1 January 2005

No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

##### Shares options granted after 7 November 2002 and vested after 1 January 2005

The fair value of options granted under the Flight Centre Limited Employee Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non market vesting conditions (for example, profitability and sales growth targets). Non market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Share-based benefits are offered to full-time employees through participation in the Flight Centre Limited Employee Share Plan. Under the plan, shares may be purchased at market value and matched with an additional contribution equivalent to 10% of the overall value invested. The contribution offered to employees is expensed in the income statement with a corresponding increase in equity.

#### (v) Profit sharing and bonus plans

A liability for employee benefits in the form of profit sharing and bonus plans is recognised as payable when there is a contractual obligation or valid expectation that payment will be made. Employee profit sharing and bonus payments are recognised and paid monthly.

### (o) Earnings per share

#### (i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

#### (ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

# Notes to and Forming Part of the Financial Statements (cont.)

## 1. Summary of significant accounting policies (cont.)

### (p) Provisions

Provisions for legal claims are recognised when: the group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations is small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

### (q) Contributed equity

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

### (r) Rounding of amounts

The company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars or, in certain cases, the nearest dollar.

### (s) AASB 1 Transitional exemptions

The group has made its election in relation to the transitional exemptions allowed by AASB 1 'First time adoption of Australian Equivalents to International Financial Reporting Standards' as follows:

#### Business Combinations

AASB 3 'Business combinations' was not applied retrospectively to acquisitions occurring prior to the date of transition to AIFRS.

#### Exemption from the requirement to restate comparative information for AASB 132 and AASB 139

The group has elected to adopt this exemption and has not applied AASB 132 'Financial Instruments: Presentation and Disclosure' and AASB 139 'Financial Instruments: Recognition and Measurement' to its comparative information.

Transition to AASB 132 and AASB 139 has occurred on 1 July 2005 in accordance with the election available under AASB 1. The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 is that other financial asset have been designated as 'available for sale' and are measured at fair value. Fair value is inclusive of transaction costs. The accounting policy for investments in described above in note 1(j).

### (t) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity on or before the end of the financial year but not distributed at balance date.

### (u) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

### (v) Borrowings and borrowing costs

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not incremental costs relating to the actual draw down of the facility are recognised as prepayments and amortised on a straight line basis over the term of the facility.

Borrowing costs are recognised as expenses in the period in which they are incurred and include:

- interest on bank overdrafts and short and long-term borrowings; and
- unwinding of discount on deferred payables.

Borrowings are classified as current liabilities unless the consolidated entity has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

# Notes to and Forming Part of the Financial Statements (cont.)

## 1. Summary of significant accounting policies (cont.)

### (w) New accounting standards and UIG interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for the 30 June 2006 reporting period. The group has assessed the impact of these new standards and no material impacts are expected apart from the standard discussed below.

#### (i) AASB 2005 9 Amendments to Australian Accounting Standards [AASB 4, AASB 1023, AASB 139 & AASB 132]

AASB 2005 9 is applicable to annual reporting periods beginning on or after 1 January 2006. The amendments relate to the accounting for financial guarantee contracts. The group has not elected to adopt the amendments early. It will apply the revised standards in its 30 June 2007 financial statements. Application of the revised rules may result in the recognition of financial liabilities in the financial statements of the parent entity, Flight Centre Limited, under guarantees given pursuant to the deed of cross guarantee (see note 44) in respect of amounts payable by wholly owned subsidiaries. An assessment of the fair value of these guarantees has not yet been performed. The new rules will be implemented retrospectively with a restatement of the comparatives as required by AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors.

## 2. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

### (a) Critical accounting estimates and assumptions

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### (i) Estimated impairment of goodwill

The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash generating units have been determined based on value in use calculations. These calculations use cash flow projections based upon financial budgets approved by management and cover a five year period. The growth rate does not exceed the long-term average growth rate for the business in which the cash generating unit operates.

#### (ii) Provision for doubtful debts

An estimate for doubtful debts is made when collection of the full amount receivable is no longer possible.

## 3. Revenue

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Total Transaction Value (TTV)</b>	<b>7,809,263</b>	6,872,619	<b>3,860,103</b>	3,897,293
<b>Revenue from the sale of travel services</b>				
Commission and fees from the provision of travel	727,370	638,213	404,104	400,307
Revenue from the provision of travel	230,460	211,428	97,840	107,694
Other revenue	15,881	21,467	15,830	22,471
	<b>973,711</b>	871,108	<b>517,774</b>	530,472
<b>Other revenue</b>				
Rents and sub lease rentals	890	679	731	466
Interest	24,078	24,891	25,964	20,459
Dividends	-	-	5,772	-
Royalties	-	-	12,173	8,660
	<b>24,968</b>	25,570	<b>44,640</b>	29,585

### Total Transaction Value (TTV)

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 derived from TTV.

# Notes to and Forming Part of the Financial Statements (cont.)

## 4. Other income

	Consolidated		Parent	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Foreign exchange gains (net)	4,057	1,836	6,286	320

## 5. Expenses

	Consolidated		Parent	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
<b>Profit before income tax includes the following specific expenses:</b>				
<b>Depreciation</b>				
Buildings	730	780	655	779
Plant and equipment	24,320	26,256	8,950	8,103
<b>Total depreciation</b>	<b>25,050</b>	<b>27,036</b>	<b>9,605</b>	<b>8,882</b>
<b>Amortisation</b>				
Other intangibles	11,436	6,213	3,624	3,437
<b>Other charges against assets</b>				
Write down of property, plant and equipment to recoverable amount	-	1,124	-	847
Bad and doubtful debts (write backs)	(595)	(1,081)	(1,872)	(1,197)
Impairment charge of software	-	3,612	-	-
<b>Finance costs</b>				
Interest and finance charges paid/payable	15,143	15,648	8,917	16,396
<b>Net loss on disposal of property, plant and equipment and intangible assets</b>	<b>1,933</b>	<b>2,252</b>	<b>473</b>	<b>320</b>
<b>Rental expense relating to operating leases</b>				
Lease payments	70,533	62,387	38,659	33,364

Elements of rental expense are contingent upon such factors as CPI growth and individual shop turnover growth. Total rental expense includes all elements of rent including those that are contingent.

# Notes to and Forming Part of the Financial Statements (cont.)

## 6. Income tax expense

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>(a) Aggregate income tax expense comprises:</b>				
Current tax	35,992	38,038	17,684	28,127
Deferred tax expense (credit)	3,650	(90)	5,451	(2,680)
Under (over) provided in prior years	450	784	140	42
	<b>40,092</b>	<b>38,732</b>	<b>23,275</b>	<b>25,489</b>
Deferred income tax (revenue) expense included in income tax expense comprises:				
Decrease (increase) in deferred tax assets (note 16)	1,216	(841)	2,200	(3,682)
(Decrease) increase in deferred tax liabilities (note 25)	2,434	751	3,251	1,002
<b>(b) Reconciliation of income tax expense to prima facie tax payable</b>				
The income tax expense for the financial year differs from the amount calculated on the profit.				
The differences are reconciled as follows:				
<b>Profit from continuing operations before income tax expense</b>	<b>120,002</b>	<b>115,591</b>	<b>81,442</b>	<b>84,409</b>
Tax at the Australian tax rate of 30% (2005: 30%)	36,001	34,677	24,433	25,323
Tax effect of amounts which are not deductible (assessable) in calculating taxable income:				
Non deductible (assessable) amounts	1,655	1,316	432	139
Other amounts	492	(984)	3	(15)
Exempt dividends	-	-	(1,732)	-
	<b>38,148</b>	<b>35,009</b>	<b>23,136</b>	<b>25,447</b>
Tax losses not booked	1,722	3,275	-	-
Effect of lower rates of tax on overseas income	(228)	(336)	-	-
Under (over) provision in prior years	450	784	139	42
	<b>1,944</b>	<b>3,723</b>	<b>139</b>	<b>42</b>
<b>Total aggregate income tax expense</b>	<b>40,092</b>	<b>38,732</b>	<b>23,275</b>	<b>25,489</b>
<b>(c) Amounts recognised directly in equity</b>				
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity				
Current tax credited directly to equity (note 27)	(114)	(114)	(114)	(114)
<b>Net deferred tax debited directly to equity (notes 16 and 25)</b>	<b>78</b>	<b>-</b>	<b>78</b>	<b>-</b>
<b>(d) Tax losses</b>				
Unused tax losses for which no deferred tax asset has been recognised	18,604	12,513	-	-
<b>Potential tax benefit</b>	<b>6,201</b>	<b>4,273</b>	<b>-</b>	<b>-</b>

# Notes to and Forming Part of the Financial Statements (cont.)

## 6. Income tax expense (cont.)

### (e) Tax consolidation legislation

Flight Centre Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2003. The accounting policy in relation to this legislation is set out in note 1(e).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly owned entities in the case of a default by the head entity, Flight Centre Limited.

The entities have also entered into a tax funding agreement under which the wholly owned entities fully compensate Flight Centre Limited for any current tax payable assumed and are compensated by Flight Centre Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Flight Centre Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity. This advice is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax installments. The funding amounts are recognised as current intercompany receivables or payables (see note 35(e)).

## 7. Dividends

	Parent	
	2006 \$'000	2005 \$'000
<b>(a) Ordinary shares</b>		
Final ordinary dividend for the year ended 30 June 2005 of 28 cents (2004: 40.5 cents) per fully paid share, paid on 14 October 2005, fully franked	26,497	38,085
Special dividend for the year ended 30 June 2004 of 40 cents per fully paid share, paid on 26 November 2004, fully franked	-	37,614
Interim ordinary dividend for the year ended 30 June 2006 of 20 cents (2005: 22.5 cents) per fully paid share, paid on 24 March 2006, fully franked	18,894	21,565
<b>Total dividends provided for or paid</b>	<b>45,391</b>	<b>97,264</b>

### (b) Dividends not recognised at year end

In addition to the above dividends, since year end the directors have recommended the payment of a final dividend of 32.0 cents per fully paid ordinary share, (2005: 28 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 13 October 2006 out of retained profits at 30 June 2006, but not recognised as a liability at year end is

30,231 26,497

### (c) Franked dividends

The franked portions of the final dividends recommended after 30 June 2006 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2006.

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2005: 30%)	29,462	36,882	29,462	36,882

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- (a) franking credits that will arise from the payment of the amount of the current tax liability
- (b) franking debits that will arise from the payment of dividends recognised as liabilities at the reporting date, and
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The impact on the franking account of the dividend recommended by the directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of \$12,956,028 (2005: \$11,337,000).



# Notes to and Forming Part of the Financial Statements (cont.)

## 8. Current assets – Cash and cash equivalents

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Cash at bank and on hand	61,816	31,518	34,060	22,429
Term deposits	51,639	67,367	-	-
Client account	160,733	140,719	84,885	84,525
	274,188	239,604	118,945	106,954
<b>Restricted cash</b>				
Total cash and cash equivalents	274,188	239,604	118,945	106,954
Restricted client funds	(160,733)	(140,719)	(84,885)	(84,525)
Deposits subject to restrictions	(19,864)	(23,982)	(19,864)	(23,982)
	93,591	74,903	14,196	(1,553)

### (a) Reconciliation to cash at the end of the year

The cash shown as client cash is held on behalf of customers. This is held until suppliers are paid on behalf of these customers. Other deposits are subject to withdrawal restrictions and set-off arrangements in regard to varying financial arrangements that the company has entered into.

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Balances as above	274,188	239,604	118,945	106,954
Bank overdrafts (note 20)	(12,345)	(876)	-	-
Balances per statement of cash flows	261,843	238,728	118,945	106,954

### (b) Cash at bank and on hand

These are bearing interest at between 0% and 7.47% (2005: 0% and 9%) for an average term of less than three months.

### (c) Client account

These are bearing interest at between 0% and 8.31% (2005: 0% and 6%) for an average term of less than three months.

The weighted average cash fixed interest rate for the year was 5.43% (2005: 2%). The weighted average variable interest rate for the year was 5.33% (2005: 0%).

### (d) Term deposits

These are bearing interest at between 2.25% and 13.00% (2005: 1.25% and 6.90%) and have an average term of 17 days.

The weighted average interest rate for the year was 4.32% (2005: 4.54%).

# Notes to and Forming Part of the Financial Statements (cont.)

## 9. Current assets – Receivables

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Trade receivables</b>				
Trade Debtors	217,575	186,149	69,340	101,882
Client Debtors	19,137	21,846	5,867	6,412
Less: Provision for doubtful receivables	(8,039)	(8,634)	(4,230)	(6,102)
	228,673	199,361	70,977	102,192
Receivable from controlled entities	-	-	159,021	138,074
GST Receivable	2,834	550	74	724
Prepayments	10,195	8,329	2,453	2,492
Other debtors	3,285	2,960	689	40
	244,987	211,200	233,214	243,522

All receivables are non interest bearing with the exception of receivables from related parties, which are bearing an interest rate at between 2% and 8% (2005: 0% and 7.5%).

## 10. Current assets – Other financial assets

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Traded securities - at cost	-	192,738	-	157,080

### Transition to AASB 132 and AASB 139

The group has taken the exemption available under AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards to apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement from 1 July 2005. At the date of transition to these standards at 1 July 2005, both for the group and the parent entity, traded securities with a carrying value of \$192,738,000 and \$157,080,000 respectively which were classified in the balance sheet under previous AGAAP as other financial assets were reclassified as available for sale financial assets at fair value.

## 11. Current assets – Current tax receivables

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Income tax receivable	5,596	-	4,291	-

# Notes to and Forming Part of the Financial Statements (cont.)

## 12. Current assets – Available for sale financial assets

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Reclassified on adoption of AASB 132 and AASB 139	192,738	-	157,080	-
Fair value adjustment on adoption of AASB 132 and AASB 139	(363)	-	(363)	-
Net Additions	11,909	-	13,363	-
Fair value revaluation surplus transfer to equity	547	-	547	-
At the end of the year	204,831	-	170,627	-

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Traded securities	204,831	-	170,627	-

The group has taken the exemption available under AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards to apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement from 1 July 2005. At the date of transition both for the group and the parent entity traded securities with a carrying value of \$192,738,000 and \$157,080,000 respectively that were classified in the balance sheet under previous AGAAP as other financial assets were re classified as available for sale financial assets and recognised at fair value. The difference between cost and fair value of \$363,000 was recognised in the available for sale financial assets equity reserve.

These are bearing interest at between 6% and 15% (2005: 6% and 12%).

The weighted average fixed interest rate for the year was 7.36% (2005: 7%). The weighted average variable interest rate for the year was 6.10% (2005: 7%).

## 13. Non current assets classified as held for sale

The non current assets classified as held for sale consists of land and buildings of \$12,179,000 (2005: \$0) for both the consolidated and parent entity. Refer to note 38 for more details.

## 14. Non current assets – Other financial assets

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Shares in controlled entities at cost (note 37)	-	-	154,246	127,226

## Notes to and Forming Part of the Financial Statements (cont.)

### 15. Non current assets – Property, plant and equipment

Consolidated			
	Freehold land & buildings \$'000	Plant and equipment \$'000	Total \$'000
<b>At 1 July 2004</b>			
Cost	14,227	157,894	172,121
Accumulated depreciation	(578)	(84,513)	(85,091)
<b>Net book amount</b>	<b>13,649</b>	<b>73,381</b>	<b>87,030</b>
<b>Year ended 30 June 2005</b>			
Opening net book amount	13,649	73,381	87,030
Exchange differences	(9)	(2,426)	(2,435)
Additions	-	36,603	36,603
Disposals	-	(1,799)	(1,799)
Depreciation charge	(780)	(26,256)	(27,036)
Write down of fixed assets	-	(1,124)	(1,124)
<b>Closing net book amount</b>	<b>12,860</b>	<b>78,379</b>	<b>91,239</b>
<b>At 30 June 2005</b>			
Cost	14,195	173,295	187,490
Accumulated depreciation	(1,335)	(94,916)	(96,251)
<b>Net book amount</b>	<b>12,860</b>	<b>78,379</b>	<b>91,239</b>

Consolidated			
	Freehold land & buildings \$'000	Plant and equipment \$'000	Total \$'000
<b>Year ended 30 June 2006</b>			
Opening net book amount	12,860	78,379	91,239
Exchange differences	(4)	418	414
Acquisition through business combinations	-	3,278	3,278
Additions	403	22,827	23,230
Assets classified as held for sale and other disposals	(12,179)	-	(12,179)
Disposals	-	(2,446)	(2,446)
Depreciation charge	(730)	(24,320)	(25,050)
<b>Closing net book amount</b>	<b>350</b>	<b>78,136</b>	<b>78,486</b>
<b>At 30 June 2006</b>			
Cost	392	183,737	184,129
Accumulated depreciation	(42)	(105,601)	(105,643)
<b>Net book amount</b>	<b>350</b>	<b>78,136</b>	<b>78,486</b>

# Notes to and Forming Part of the Financial Statements (cont.)

## 15. Non current assets – Property, plant and equipment (cont.)

Parent			
	Freehold land & buildings \$'000	Plant and equipment \$'000	Total \$'000
<b>At 1 July 2004</b>			
Cost	14,164	54,703	68,867
Accumulated depreciation	(551)	(29,916)	(30,467)
<b>Net book amount</b>	<b>13,613</b>	<b>24,787</b>	<b>38,400</b>
<b>Year ended 30 June 2005</b>			
Opening net book amount	13,613	24,787	38,400
Additions	-	18,442	18,442
Disposals	-	(294)	(294)
Depreciation charge	(779)	(8,103)	(8,882)
Write down of assets	-	(847)	(847)
<b>Closing net book amount</b>	<b>12,834</b>	<b>33,985</b>	<b>46,819</b>
<b>At 30 June 2005</b>			
Cost	14,164	68,159	82,323
Accumulated depreciation	(1,330)	(34,174)	(35,504)
<b>Net book amount</b>	<b>12,834</b>	<b>33,985</b>	<b>46,819</b>
Parent			
	Freehold land & buildings \$'000	Plant and equipment \$'000	Total \$'000
<b>Year ended 30 June 2006</b>			
Opening net book amount	12,834	33,985	46,819
Assets classified as held for sale and other disposals	(12,179)	-	(12,179)
Additions	-	9,199	9,199
Disposals	-	(326)	(326)
Depreciation charge	(655)	(8,950)	(9,605)
<b>Closing net book amount</b>	<b>-</b>	<b>33,908</b>	<b>33,908</b>
<b>At 30 June 2006</b>			
Cost	-	76,003	76,003
Accumulated depreciation	-	(42,095)	(42,095)
<b>Net book amount</b>	<b>-</b>	<b>33,908</b>	<b>33,908</b>

# Notes to and Forming Part of the Financial Statements (cont.)

## 16. Non current assets – Deferred tax assets

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>The balance comprises temporary differences attributable to:</b>				
<b>Amounts recognised in profit or loss</b>				
Doubtful debts	2,205	2,466	1,269	1,830
Employee benefits	7,205	7,012	5,954	5,621
Deferred interest	93	121	93	121
Depreciation	3,593	4,105	-	402
Accruals	2,371	759	1,160	416
Investment write down	150	150	150	150
Foreign exchange movements	-	1,437	-	1,437
Other	2,031	1,482	1,880	1,680
Loyalty program	304	1,353	304	1,353
Tax losses	-	283	-	-
	<b>17,952</b>	<b>19,168</b>	<b>10,810</b>	<b>13,010</b>
Set-off of deferred tax liabilities of parent entity pursuant to set-off provisions (note 25)	(5,746)	(2,417)	(5,746)	(2,417)
<b>Net deferred tax assets</b>	<b>12,206</b>	<b>16,751</b>	<b>5,064</b>	<b>10,593</b>
<b>Movements:</b>				
Opening balance at 1 July	19,168	18,327	13,010	9,328
Credited/(charged) to the income statement (note 6)	(1,216)	841	(2,200)	3,682
<b>Closing balance at 30 June</b>	<b>17,952</b>	<b>19,168</b>	<b>10,810</b>	<b>13,010</b>
Deferred tax assets to be recovered after more than 12 months	10,820	14,070	7,271	11,427
Deferred tax assets to be recovered within 12 months	7,132	5,098	3,539	1,583
	<b>17,952</b>	<b>19,168</b>	<b>10,810</b>	<b>13,010</b>

# Notes to and Forming Part of the Financial Statements (cont.)

## 17. Non current assets – Intangible assets

Consolidated			
	Goodwill \$'000	Other intangible assets \$'000	Total \$'000
<b>At 1 July 2004</b>			
Cost	148,758	22,977	171,735
Accumulated amortisation and impairment	-	(6,845)	(6,845)
<b>Net book amount</b>	<b>148,758</b>	<b>16,132</b>	<b>164,890</b>
<b>Year ended 30 June 2005</b>			
Opening net book amount	148,758	16,132	164,890
Exchange differences	(8,819)	-	(8,819)
Additions	1,106	18,319	19,425
Impairment charge	-	(3,612)	(3,612)
Amortisation charge	-	(6,213)	(6,213)
<b>Closing net book amount</b>	<b>141,045</b>	<b>24,626</b>	<b>165,671</b>
<b>At 30 June 2005</b>			
Cost	141,045	44,994	186,039
Accumulated amortisation and impairment	-	(20,368)	(20,368)
<b>Net book amount</b>	<b>141,045</b>	<b>24,626</b>	<b>165,671</b>

Consolidated			
	Goodwill \$'000	Other intangible assets \$'000	Total \$'000
<b>Year ended 30 June 2006</b>			
Opening net book amount	141,045	24,626	165,671
Exchange differences	4,577	13	4,590
Additions	-	13,228	13,228
Acquisition of subsidiary	26,769	1,105	27,874
Disposals	(1,105)	(2,736)	(3,841)
Impairment charge	-	-	-
Amortisation charge	-	(11,436)	(11,436)
<b>Closing net book amount</b>	<b>171,286</b>	<b>24,800</b>	<b>196,086</b>
<b>At 30 June 2006</b>			
Cost	171,286	52,091	223,377
Accumulated amortisation and impairment	-	(27,291)	(27,291)
<b>Net book amount</b>	<b>171,286</b>	<b>24,800</b>	<b>196,086</b>



# Notes to and Forming Part of the Financial Statements (cont.)

## 17. Non current assets – Intangible assets (cont.)

Parent			
	Goodwill \$'000	Other intangible assets \$'000	Total \$'000
<b>At 1 July 2004</b>			
Cost	6,461	12,703	19,164
Accumulated amortisation and impairment	(1,747)	(3,115)	(4,862)
<b>Net book amount</b>	<b>4,714</b>	<b>9,588</b>	<b>14,302</b>
<b>Year ended 30 June 2005</b>			
Opening net book amount	4,714	9,588	14,302
Additions	146	2,102	2,248
Amortisation charge	-	(3,437)	(3,437)
<b>Closing net book amount</b>	<b>4,860</b>	<b>8,253</b>	<b>13,113</b>
<b>At 30 June 2005</b>			
Cost	4,860	14,958	19,818
Accumulated amortisation and impairment	-	(6,705)	(6,705)
<b>Net book amount</b>	<b>4,860</b>	<b>8,253</b>	<b>13,113</b>

Parent			
	Goodwill \$'000	Other intangible assets \$'000	Total \$'000
<b>Year ended 30 June 2006</b>			
Opening net book amount	4,860	8,253	13,113
Inter company transfer	(1,212)	-	(1,212)
Additions	-	1,179	1,179
Disposals	-	(772)	(772)
Amortisation charge	-	(3,624)	(3,624)
<b>Closing net book amount</b>	<b>3,648</b>	<b>5,036</b>	<b>8,684</b>
<b>At 30 June 2006</b>			
Cost	3,648	14,581	18,229
Accumulated amortisation and impairment	-	(9,545)	(9,545)
<b>Net book amount</b>	<b>3,648</b>	<b>5,036</b>	<b>8,684</b>

### (a) Impairment tests for goodwill

Goodwill is allocated to the group's cash generating units (CGUs) identified according to business segment and country of operation.

A segment level summary of the goodwill allocation is presented below.

2006	Australia	New Zealand	UK	Other countries	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Goodwill	43,590	2,718	91,165	33,813	171,286

The recoverable amount of a CGU is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

# Notes to and Forming Part of the Financial Statements (cont.)

## 17. Non current assets – Intangible assets (cont.)

### (b) Key assumptions used for value in use calculations

CGU	Gross margin*		Growth rate**		Discount rate***	
	2006 %	2005 %	2006 %	2005 %	2006 %	2005 %
<b>Goodwill</b>						
Australia	9.9	9.6	-	-	13.4	13.4
New Zealand	10.2	10.1	-	-	13.4	13.4
UK	9.1	9.4	-	-	13.4	13.4
Other countries	9.0	9.0	-	-	13.4	13.4

\* Budgeted gross margin

\*\* Weighted average growth rate used to extrapolate cash flows beyond the budget period

\*\*\* In performing the value in use calculations for each CGU, the company has applied post tax discount rates to discount the forecast future attributable post tax cash flows. The equivalent pre tax discount rates are disclosed above. The same post tax discount rates were applied in 2005 and 2006.

These assumptions have been used for the analysis of each CGU within the business segment. Management determined budgeted gross margin based on past performance and its expectations for the future. The weighted average growth rates used are consistent with forecasts included in industry reports. The discount rates used are pre tax and reflect specific risks relating to the relevant segments and the countries in which they operate.

## 18. Interests in joint ventures

### (a) Joint venture entity

Flight Centre (China) Pty Ltd has entered into a 50% joint venture with China Comfort Travel Co Ltd to form Flight Centre Comfort Travel Business Co Ltd in Beijing 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 FCM Travel Solutions corporate network.

Information relating to the joint venture is presented in accordance with the accounting policy described in note 1 and is set out below.

	Consolidated	
	2006 \$'000	2005 \$'000
<b>Carrying amount of investment in joint venture</b>	<b>2,248</b>	<b>2,750</b>
<b>Share of joint venture assets and liabilities</b>		
Current assets	2,185	759
Non current assets	150	74
<b>Total assets</b>	<b>2,335</b>	<b>833</b>
<b>Current liabilities</b>	<b>1,282</b>	<b>420</b>
<b>Net assets</b>	<b>1,053</b>	<b>413</b>
<b>Share of joint venture's revenue, expenses and results</b>		
Revenues	539	449
Expenses	(1,002)	(763)
<b>Loss before income tax</b>	<b>(463)</b>	<b>(314)</b>
<b>Share of joint venture's commitments</b>		
Lease commitments	10	10

# Notes to and Forming Part of the Financial Statements (cont.)

## 19. Current liabilities – Trade payables and other

	Consolidated		Parent	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Trade payables	312,037	281,801	164,803	153,341
Client creditors	167,846	155,433	84,885	89,359
Accrued unsecured note interest	2,825	3,774	1,721	2,835
Annual leave	15,702	15,141	9,565	10,782
Provision for vouchers	1,414	4,504	1,414	4,504
Amounts owing to controlled entities	-	-	-	7,521
	499,824	460,653	262,388	268,342

## 20. Current liabilities – Borrowings

	Consolidated		Parent	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Unsecured notes principal	31,317	36,917	24,933	30,219
Amounts owing to controlled entities – unsecured	-	-	50,677	28,210
Bank overdraft	12,345	876	-	-
	43,662	37,793	75,610	58,429

### Controlled Entities

The amounts owing to controlled entities are payable in accordance with individual loan agreements. Until that time, they incur interest at rates varying between 5.67% and 8.25% (2005: varying amounts between 0% and 7.5%)

### Unsecured notes

The unsecured notes relate to the group's Business Ownership Scheme and are repayable on demand by either party or upon termination of employment of the note holder. Interest is generally payable monthly, two months in arrears, at contracted rates between 0.1% and 25% of the underlying division's profitability.

The weighted average interest rate during the year was 31.04% (2005: 28.28%)

## 21. Current liabilities – Provisions

	Consolidated		Parent	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Employee benefits – Long service leave	3,401	3,116	3,356	2,981

## 22. Current liabilities – Current tax liabilities

	Consolidated		Parent	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Provision for taxation	2,533	3,144	-	2,041

## Notes to and Forming Part of the Financial Statements (cont.)

### 23. Non current liabilities – Payables

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Other payables	2,852	614	1,395	542
Deferred settlement consideration (see note 36)	31,830	17,230	-	-
	34,682	17,844	1,395	542

### 24. Non current liabilities – Borrowings

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Unsecured</b>				
Bank Loan	27,000	15,000	27,000	15,000

#### (a) Financing arrangements

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Bank loan facilities</b>				
Total facilities	50,000	50,000	50,000	50,000
Used at balance date	27,000	15,000	27,000	15,000
<b>Unused at balance date</b>	<b>23,000</b>	<b>35,000</b>	<b>23,000</b>	<b>35,000</b>

Bank loan facilities are unsecured, having a revolving term of two years at floating interest rates, and may be drawn down at any time.

#### Multi option facility

The company is party to a secured multi option credit facility of \$20,000,000 (2005: \$20,000,000). The facility is secured by a floating charge on the bonds and traded securities held by the parent entity. Amounts may be drawn at any time and may be terminated by the bank without notice. The total letters of credit provided under the facility at balance date was \$7,870,072 (2005: \$4,089,622). The total value of the securities held under charge is \$17,365,433 (2005: \$8,690,936).

#### Letter of credit facilities (unsecured)

A letter of credit facility of \$57,500,000 is available to the company (2005: \$57,500,000). The total letters of credit issued under this facility was \$56,495,665 (2005: \$51,221,574).

Bank guarantees and letters of credit are provided as security on various facilities with vendors and in accordance with local travel agency licensing and International Air Transport regulations.

The current interest rates are 6.25% on the bank loans (2005: 6.02%)

#### Bank overdraft

Total overdraft facilities available to the group are \$10.3million. These facilities may be drawn at any time and bear interest between 7% and 10% (2005: 7.25%). The facilities utilised at year end were \$12,346,000. The Hong Kong facility of HKD \$11million is secured by a standby letter of credit from Flight Centre Limited. The India facility of INR \$250million is unsecured.

# Notes to and Forming Part of the Financial Statements (cont.)

## 25. Non current liabilities – Deferred tax liabilities

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>The balance comprises temporary differences attributable to:</b>				
<b>Amounts recognised in profit or loss</b>				
Prepayments	45	45	-	-
Receivables	1,672	1,972	1,672	1,928
Depreciation	638	1,248	408	559
Foreign exchange movements	1,258	-	1,258	-
Other	2,511	177	2,408	(70)
	<b>6,124</b>	<b>3,442</b>	<b>5,746</b>	<b>2,417</b>
Set-off of deferred tax liabilities of parent entity pursuant to set-off provisions (note 16)	<b>(5,746)</b>	<b>(2,417)</b>	<b>(5,746)</b>	<b>(2,417)</b>
<b>Net deferred tax liabilities</b>	<b>378</b>	<b>1,025</b>	<b>-</b>	<b>-</b>
<b>Movements:</b>				
Opening balance at 1 July	3,442	2,691	2,417	1,415
Charged/(credited) to the income statement	2,434	751	3,251	1,002
Charged/(credited) to equity	78	-	78	-
Acquisition of subsidiary (note 36)	170	-	-	-
<b>Closing balance at 30 June</b>	<b>6,124</b>	<b>3,442</b>	<b>5,746</b>	<b>2,417</b>
Deferred tax liabilities to be settled after more than 12 months	4,552	3,223	4,403	1,927
Deferred tax liabilities to be settled within 12 months	1,572	219	1,343	490
	<b>6,124</b>	<b>3,442</b>	<b>5,746</b>	<b>2,417</b>

## 26. Non current liabilities – Provisions

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Employee benefits – Long service leave	4,928	5,179	4,928	4,974
Make good provision	3,514	3,550	3,414	3,421
	<b>8,442</b>	<b>8,729</b>	<b>8,342</b>	<b>8,395</b>

### Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

	Consolidated		Parent	
	Make Good Provision		Make Good Provision	
	2006 \$'000		2006 \$'000	
<b>Non current</b>				
Carrying amount at start of year		3,550		3,421
Net movement		(36)		(7)
<b>Carrying amount at end of year</b>		<b>3,514</b>		<b>3,414</b>

The make good provision relates to a provision raised on inception of the lease where the lease agreement requires the premises to be returned to its previous condition.

# Notes to and Forming Part of the Financial Statements (cont.)

## 27. Contributed equity

		Consolidated		Parent	
	Notes	2006 Shares	2005 Shares	2006	2005
<b>(a) Share capital</b>					
Fully paid ordinary shares	(b),(c)	<b>94,471,035</b>	94,471,035	<b>260,715</b>	260,602
<b>(b) Movements in ordinary share capital:</b>					
Date	Details	Notes	Number of shares	Issue price	\$'000
1 July 2004	Opening balance		94,036,088		256,642
	Employee Option Plan	(d)	373,814	\$7.62	2,849
	Employee Option Plan	(d)	20,000	\$14.15	283
	Employee Option Plan	(d)	1,640	\$16.71	32
29 November 2004	Employee Share Plan	(e)	39,159	\$17.40	681
	Adjustment to previous share issues		334	\$2.69	1
	Tax effect of previous issue costs				114
<b>30 June 2005</b>	<b>Balance</b>		<b>94,471,035</b>		<b>260,602</b>
1 July 2005	Opening balance		94,471,035		260,602
	Tax effect of previous issue costs				113
<b>30 June 2006</b>	<b>Balance</b>		<b>94,471,035</b>		<b>260,715</b>

### (c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands, every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote. Upon a poll, each share is entitled to one vote.

### (d) Employee Option Plan

Information relating to the Flight Centre Limited Employee Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 42.

### (e) Employee Share Plan

Information relating to the Flight Centre Limited Employee Share Plan, including details of shares issued during the financial year, are set out in note 42.

## 28. Reserves and retained profits

		Consolidated		Parent	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>(a) Reserves</b>					
Available for sale investments revaluation reserve		<b>184</b>	-	<b>184</b>	-
Share-based payments reserve		<b>473</b>	57	<b>473</b>	57
Foreign currency translation reserve		<b>(8,426)</b>	(11,430)	-	-
		<b>(7,769)</b>	(11,373)	<b>657</b>	57

# Notes to and Forming Part of the Financial Statements (cont.)

## 28. Reserves and retained profits (cont.)

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Movements:</b>				
<b>Available for sale investments revaluation reserve</b>				
Balance 1 July	-	-	-	-
Adjustment on adoption of AASB 132 and AASB 139	(363)	-	(363)	-
Fair value adjustments; net of tax	547	-	547	-
<b>Balance 30 June</b>	<b>184</b>	<b>-</b>	<b>184</b>	<b>-</b>
<b>Share-based payments reserve</b>				
Balance 1 July	57	-	57	-
Option expense	416	57	416	57
<b>Balance 30 June</b>	<b>473</b>	<b>57</b>	<b>473</b>	<b>57</b>
<b>Foreign currency translation reserve</b>				
Balance 1 July	(11,430)	-	-	-
Net exchange differences on translation of foreign operations	3,004	(11,430)	-	-
<b>Balance 30 June</b>	<b>(8,426)</b>	<b>(11,430)</b>	<b>-</b>	<b>-</b>
<b>(b) Retained profit</b>				
Balance 1 July	123,420	143,825	88,919	127,262
Profit for the year	79,910	76,859	58,167	58,920
Dividends	(45,391)	(97,264)	(45,391)	(97,264)
<b>Balance 30 June</b>	<b>157,939</b>	<b>123,420</b>	<b>101,695</b>	<b>88,918</b>

### (c) Nature and purpose of reserves

#### (i) Available for sale investments revaluation reserve

Changes in the fair value of investments, such as equities, classified as available for sale financial assets, are taken to the available for sale investments revaluation reserve, as described in note 1(j). Amounts are recognised in profit and loss when the associated assets are sold or impaired.

#### (ii) Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued but not exercised.

#### (iii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as described in note 1(c). The reserve is recognised in profit and loss when the net investment is disposed of.

## 29. Financial risk management

The group's activities expose it to a variety of financial risks; market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the group. The group uses foreign exchange contracts to hedge certain risk exposures.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board. Group Treasury identifies, evaluates and hedges financial risks in close cooperation with the group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as mitigating foreign exchange, interest rate and credit risks, use of derivative financial instruments and investing excess liquidity.

### (a) Market risk

#### (i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The group operates internationally and is exposed to foreign exchange risk arising from currency exposures to several foreign currencies.

# Notes to and Forming Part of the Financial Statements (cont.)

## 29. Financial risk management (cont.)

### (ii) Price risk

The group is exposed to traded securities price risk. This arises from investments held by the group and classified on the balance sheet as available for sale. The group is not exposed to commodity price risk.

### (b) Credit risk

The group has no significant concentrations of credit risk. The group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. In addition, receivable balances are monitored on an ongoing basis with the result that the group's exposure to bad debts is not significant.

### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

### (d) Cash flow and fair value interest rate risk

The group holds a number of interest bearing assets which are issued at variable interest rates. The group's income and operating cash flows are, therefore, exposed to changes in market interest rates.

The group's interest rate risk also arises from short and long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk.

## 30. Revision of estimates in preparation of financial report

The company's accounting policy for volume-based incentive payments is to recognise revenue at the time of ticketing. In previous reporting periods, a component of this revenue could not be reliably estimated at the time of ticketing and was, therefore, not recognised until the subsequent accounting period when the revenue could be determined with certainty.

During the year, the company has implemented a new reporting tool which enables a reliable estimate of that component of the volume-based incentive to be made at the time of ticketing. This has resulted in a one-off increase to both revenue and pre tax profit of \$4,750,000 (\$3,325,000 after tax) in the current period. There is no material impact of this change in future reporting periods.

## 31. Key management personnel disclosures

### (a) Directors

Refer to page 4 of the directors' report.

#### (i) Chairman

B.R. Brown (Appointed 20 December 2005)

#### (ii) Executive directors

G.F. Turner

S.J. Flynn (Resigned 1 September 2005)

#### (iii) Non-executive directors

P.F. Barrow

H.L. Stack

G.L. Harris (Alternate for directors listed above)

### (b) Other key management personnel

Refer to page 7 of the directors' report.

Name	Position	Employer
M. Aponas	Executive General Manager – Franchise and Compliance	Flight Centre Limited
D. Burns	Executive General Manager – FCm Asia Pacific	Flight Centre Limited
S. Flynn	Chief Executive Officer (Resigned 1 September 2005)	Flight Centre Limited
C. Galanty	Executive General Manager – UK	Flight Centre (UK) Ltd
S. Garrett	Executive General Manager – Leisure	Flight Centre Limited
A. Grigson	Executive General Manager – Corporate	Flight Centre Limited
R. Hamilton	Nation Leader – South Africa	Flight Centre (South Africa) Pty Ltd
G. Hogan	Executive General Manager – Information Technology	Flight Centre Limited
R. Nath	Executive General Manager – India	Friends Globe Travel Ltd
S. O'Brien	Chief Financial Officer	Flight Centre Limited
G. Pringle	Company Secretary	Flight Centre Limited
A. Slingsby	Executive General Manager – North America	The Flight Shops Inc
K. Stanley	Executive General Manager – Marketing	Flight Centre Limited
D. White	Executive General Manager – South Africa	Flight Centre (South Africa) Pty Ltd



# Notes to and Forming Part of the Financial Statements (cont.)

## 31. Key management personnel disclosures (cont.)

### (c) Key management personnel compensation

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
Short-term employee benefits	6,142,548	4,453,640	3,579,973	3,393,562
Post employment benefits	839,861	681,073	819,636	644,473
Share-based payments	235,512	-	183,176	-
	7,217,921	5,134,713	4,582,785	4,038,035

The company has taken advantage of the relief provided by ASIC Information Release 06/03 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections A-C of the remuneration report on pages 7 to 10.

### (d) Equity instrument disclosures relating to key management personnel

#### (i) Options provided as remuneration

Details of options over ordinary shares in the company provided as remuneration to each director (nil options) of Flight Centre Limited and other key management personnel are set out below. When exercisable, each option is convertible into one ordinary share of Flight Centre Limited. Further information on the options is set out in note 42.

Name	Number of options granted during the year	Number of options vested during the year
Other key management personnel of the group		
M. Aponas	40,000	-
S. Garrett	40,000	-
A. Grigson	40,000	-
G. Hogan	40,000	-
S. O'Brien	40,000	-
G. Pringle	40,000	-
A. Slingsby	40,000	-
K. Stanley	40,000	-
D. White	40,000	-

# Notes to and Forming Part of the Financial Statements (cont.)

## 31. Key management personnel disclosures (cont.)

### (ii) Option holdings

The numbers of options over ordinary shares in the company held during the financial year by each director of Flight Centre Limited and other key management personnel of the group, including their personally related parties, are set out below.

2006						
Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
<b>Executive and Non-Executive Directors of Flight Centre Limited</b>						
P.F. Barrow	30,000	-	-	(10,000)	20,000	20,000
H.L. Stack	30,000	-	-	(10,000)	20,000	20,000
S.J. Flynn (Resigned 1 September 2005)	800	-	-	(800)	-	-
B.R. Brown (Appointed 20 December 2005)	-	-	-	-	-	-
<b>Other key management personnel of the group</b>						
M. Aponas	-	40,000	-	-	40,000	-
D. Burns	2,210	-	-	(2,210)	-	-
C. Galanty	1,800	-	-	(300)	1,500	1,500
S. Garrett	-	40,000	-	-	40,000	-
A. Grigson	14,900	40,000	-	(2,400)	52,500	12,500
R. Hamilton	600	-	-	-	600	600
G. Hogan	3,000	40,000	-	(3,000)	40,000	-
R. Nath	-	-	-	-	-	-
S. O'Brien	3,000	40,000	-	-	43,000	3,000
G. Pringle	-	40,000	-	-	40,000	-
A. Slingsby	10,500	40,000	-	-	50,500	10,500
K. Stanley	16,500	40,000	-	(3,000)	53,500	13,500
D. White	200	40,000	-	(200)	40,000	-
2005						
Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
<b>Executive and Non-Executive Directors of Flight Centre Limited</b>						
P.F. Barrow	40,000	-	(10,000)	-	30,000	30,000
H.L. Stack	40,000	-	(10,000)	-	30,000	30,000
N.C. Fussell	60,000	-	-	-	60,000	60,000
S.J. Flynn	20,800	-	(20,000)	-	800	800
<b>Other key management personnel of the group</b>						
M. Aponas	-	-	-	-	-	-
D. Burns	2,210	-	-	-	2,210	2,210
C. Galanty	1,800	-	-	-	1,800	1,800
S. Garrett	5,000	-	(5,000)	-	-	-
A. Grigson	14,900	-	-	-	14,900	14,900
G. Hogan	3,000	-	-	-	3,000	3,000
G. Pringle	-	-	-	-	-	-
A. Slingsby	10,500	-	-	-	10,500	10,500
A. Spence	-	-	-	-	-	-
K. Stanley	37,500	-	(21,000)	-	16,500	16,500
J. Sturgess	12,800	-	-	-	12,800	12,800
D. White	200	-	-	-	200	200

# Notes to and Forming Part of the Financial Statements (cont.)

## 31. Key management personnel disclosures (cont.)

### (iii) Share holdings

The numbers of shares in the company held during the financial year by each director of Flight Centre Limited and other key management personnel of the group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2006				
Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
<b>Directors of Flight Centre Limited – Ordinary shares</b>				
G.F. Turner	17,232,362	-	(3,675)	17,228,687
P.F. Barrow	80,800	-	-	80,800
H.L. Stack	42,288	-	-	42,288
G.L. Harris	16,257,130	-	5,227	16,262,357
S.J. Flynn (Resigned 1 September 2005)	420,133	-	-	420,133
B.R. Brown (Appointed 20 December 2005)	-	-	5,000	5,000
<b>Other key management personnel of the group – Ordinary shares</b>				
M. Aponas	250	-	642	892
D. Burns	785	-	-	785
C. Galanty	2,002	-	-	2,002
S. Garrett	3,142	-	-	3,142
A. Grigson	2,928	-	-	2,928
R. Hamilton	232	-	-	232
G. Hogan	30,000	-	-	30,000
R. Nath	-	-	-	-
S. O'Brien	3,000	-	-	3,000
G. Pringle	2,356	-	95	2,451
A. Slingsby	1,857	-	-	1,857
K. Stanley	20,155	-	(11,200)	8,955
D. White	271	-	-	271
2005				
Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
<b>Directors of Flight Centre Limited – Ordinary shares</b>				
G.F. Turner	17,217,015	-	15,347	17,232,362
P.F. Barrow	70,800	10,000	-	80,800
H.L. Stack	32,288	10,000	-	42,288
G.L. Harris	16,457,130	-	(200,000)	16,257,130
N.C. Fussell	136,329	-	-	136,329
S.J. Flynn	400,133	20,000	-	420,133
<b>Other key management personnel of the group – Ordinary shares</b>				
M. Aponas	250	-	-	250
C. Galanty	1,955	-	47	2,002
S. Garrett	1,142	5,000	(3,000)	3,142
A. Grigson	2,928	-	-	2,928
G. Hogan	10,000	-	20,000	30,000
G. Pringle	2,305	-	51	2,356
A. Slingsby	1,547	-	310	1,857
A. Spence	-	-	-	-
K. Stanley	8,955	21,000	(9,800)	20,155
J. Sturgess	13,392	-	-	13,392
D. White	271	-	-	271

# Notes to and Forming Part of the Financial Statements (cont.)

## 31. Key management personnel disclosures (cont.)

### (e) Other transactions with key management personnel

Directors and specified executives and their related companies receive travel services from Flight Centre Limited and its related companies. All travel services are provided on normal terms and conditions to that of employees and customers generally.

The company has entered into a lease agreement with Four Direct Properties Pty Ltd, of which Messrs Turner and Harris are directors. The lease agreement which was signed in 2003 is for the rental of the premises at 181 George Street, Brisbane to Flight Centre Limited. Independent advice was sought as to the monthly rentals to be paid. Rental paid during the year was \$78,740 (2005: \$73,526).

## 32. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non related audit firms:

	Consolidated		Parent	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>(a) Assurance services</b>				
<b>Audit services</b>				
PricewaterhouseCoopers Australia				
Audit and review of financial reports and other audit work under the Corporations Act 2001	597,759	300,000	597,759	300,000
Related practices of PricewaterhouseCoopers Australia	662,251	624,050	-	-
Total remuneration for audit services	1,260,010	924,050	597,759	300,000
<b>Other assurance services</b>				
PricewaterhouseCoopers Australian firm				
Audit of regulatory returns	17,301	13,946	-	13,946
Other Professional Services	-	572,221	-	572,221
IFRS accounting services	155,000	-	155,000	-
Related practices of PricewaterhouseCoopers Australia	394,890	-	-	-
Total remuneration for other assurance services	567,191	586,167	155,000	586,167
Total remuneration for assurance services	1,827,201	1,510,217	752,759	886,167
<b>(b) Taxation services</b>				
PricewaterhouseCoopers Australia				
Tax compliance services, including review of company income tax returns	16,000	-	16,000	-
International tax advice	9,832	21,930	-	21,930
Related practices of PricewaterhouseCoopers Australia	119,571	187,532	-	-
Non PricewaterhouseCoopers audit firms	-	27,955	-	23,000
Total remuneration for taxation services	145,403	237,417	16,000	44,930
<b>(c) Advisory services</b>				
PricewaterhouseCoopers Australia				
Advisory services	-	16,430	-	16,430
Related practices of PricewaterhouseCoopers Australia	-	5,570	-	-
Non PricewaterhouseCoopers audit firms	-	6,000	-	6,000
Total remuneration for advisory services	-	28,000	-	22,430
	1,972,604	1,775,634	768,759	953,527

It is the group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the group are important. These assignments are principally tax advice and due diligence reporting on acquisitions, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the group's policy to seek competitive tenders for all major consulting projects.

# Notes to and Forming Part of the Financial Statements (cont.)

## 33. Contingencies

### (a) Contingent liabilities

#### (i) Contingent consideration

Unsecured notes were previously issued to overseas executives as part consideration for their equity interest in their particular subsidiary company. Final payments are likely to be made, however such payments cannot be readily determined at balance date.

#### (ii) Guarantees

The parent entity has guaranteed leases of other related entities. Bank guarantees in respect of shop lease obligations are secured by a mortgage of marketable securities amounting to \$3,000,000.

Standard industry operating practice requires the group to issue letters of credit to the International Air Transport Association for the benefit of the traveling public in offshore businesses. Australian customers are covered via membership of the Travel Compensation Fund and International Air Transport Regulations (refer note 24).

Included in investment in controlled entities (note 14) are liabilities payable on the acquisition of various entities and businesses. Additional installments may become payable and are dependent on future events.

## 34. Commitments

### (i) Operating leases

	Consolidated		Parent	
	2006	2005	2006	2005
	\$000	\$000	\$000	\$000
Commitments for minimum lease payments in relation to non cancellable operating leases are payable as follows:				
Within one year	61,495	41,225	38,230	25,251
Later than one year but not later than five years	148,755	101,275	81,283	51,215
Later than five years	35,233	39,698	3,863	4,119
	245,483	182,198	123,376	80,585

The operating leases above relate primarily to occupancy leases of varying terms, generally between five and seven years. The leases have varying terms, escalation clauses and renewal rights. Not included in the above are contingent rental payments which generally represent rental escalation based on CPI.

## 35. Related party transactions

### (a) Parent entities

The parent entity within the group is Flight Centre Limited.

### (b) Subsidiaries

Interests in subsidiaries are set out in note 37.

### (c) Key management and personnel compensation

Key management personnel disclosures are set out in the directors' report and note 31 to the financial statements.

# Notes to and Forming Part of the Financial Statements (cont.)

## 35. Related party transactions (cont.)

### (d) Transactions with related parties

	Consolidated		Parent	
	2006	2005	2006	2005
	\$000	\$000	\$000	\$000
<b>Income from related subsidiaries</b>				
Royalties	-	-	12,172	8,660
Rent	-	-	3,912	761
Interest	-	-	8,701	1,477
<b>Expenses to related subsidiaries</b>				
Management fees	-	-	42,656	23,615
<b>Tax consolidation legislation</b>				
Current tax payable assumed from wholly owned tax consolidated entities	-	-	8,512	1,495
<b>Dividend revenue</b>				
Subsidiaries	-	-	5,772	-

### (e) Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated		Parent	
	2006	2005	2006	2005
	\$000	\$000	\$000	\$000
<b>Current receivables (tax funding agreement)</b>				
Wholly owned tax consolidated entities	-	-	10,007	1,495

### (f) Loans to/from related parties

	Consolidated		Parent	
	2006	2005	2006	2005
	\$000	\$000	\$000	\$000
<b>Loans to subsidiaries</b>				
Beginning of the year	-	-	102,343	103,466
Loans advanced	-	-	510,944	592,416
Loan repayments received	-	-	(513,645)	(595,016)
Interest charged	-	-	8,702	1,477
End of year	-	-	108,344	102,343

### (g) Guarantees

The following guarantee has been given:

Country	Amount \$	Encumbered By
North America	5,381,217	Citibank
Republic of South Africa	1,384,990	Citibank
United Kingdom	975,633	Citibank
North America	2,464,178	
Republic of South Africa	1,099,722	
United Kingdom	42,864,210	
Hong Kong	1,813,027	
China	1,808,496	
New Zealand	4,224,058	

These guarantees comprise of both the letter of credit facility and the multi option facility as mentioned in note 24.

# Notes to and Forming Part of the Financial Statements (cont.)

## 35. Related party transactions (cont.)

### (h) Terms and conditions

The terms and conditions of the tax funding agreement are set out in note 6(e).

All other transactions were made on normal commercial terms and conditions and at market rates.

Outstanding balances are unsecured and are repayable in cash.

## 36. Business combinations

### (a) Friends Globe Travels Ltd

#### (i) Summary of acquisition

On 1 July 2005 the group acquired the business of Friends Globe Travels Ltd, a corporate travel agency located in India.

The acquired business contributed revenues of \$14.5m and net profit of \$2.4m to the group for the period from 1 July 2005 to 30 June 2006.

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

	\$'000
Purchase consideration (refer to (ii) below):	
Cash paid	7,056
Deferred consideration	10,806
Direct costs relating to the acquisition	890
<b>Total purchase consideration</b>	<b>18,752</b>
Fair value of net identifiable assets acquired (refer to (iii) below)	3,562
<b>Goodwill (refer to (iii) below and note 17)</b>	<b>15,190</b>

Deferred consideration is payable to the previous owners of Friends Globe Travels Ltd. Payments are calculated based upon compound annual growth rates of earnings of the business acquired. Estimates of future payments are recognised as liabilities and have been discounted to their present values.

#### (ii) Purchase consideration

	\$'000
Outflow of cash to acquire subsidiary:	
Cash consideration (including acquisition costs)	7,946
Less: Cash acquired	1,047
<b>Outflow of cash</b>	<b>6,899</b>

The goodwill is attributable to the high profitability of the acquired business and synergies expected to arise after the company's acquisition of the new subsidiary. The fair value of assets and liabilities acquired is based on discounted cash flow models. No acquisition provisions were created.

#### (iii) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount	Fair value
	\$'000	\$'000
Cash	1,047	1,047
Trade receivables	10,399	10,399
Available for sale assets	612	612
Plant and Equipment	2,845	2,845
Intangible assets	-	388
Trade payables	(6,193)	(6,193)
Interest bearing liabilities	(4,142)	(4,142)
Provision for employee benefits	(1,224)	(1,224)
Deferred tax liability	(170)	(170)
<b>Net identifiable assets acquired</b>	<b>3,174</b>	<b>3,562</b>

# Notes to and Forming Part of the Financial Statements (cont.)

## 36. Business combinations (cont.)

### (b) Bannockburn Travel Management

#### (i) Summary of acquisition

On 1 March 2006 the group acquired the business of Bannockburn Travel Management, a corporate travel agency located in the United States.

The acquired business contributed revenues of \$2.6m and net profit of \$0.03m to the group for the period from 1 March 2006 to 30 June 2006. If the acquisition had occurred on 1 July 2005, consolidated revenue and consolidated profit for the year ended 30 June 2006 would have been \$8,814,000 and \$1,422,000 respectively. These amounts have been calculated using the group's accounting policies and by adjusting the results of the subsidiary to reflect the additional amortisation that would have been charged assuming the fair value adjustments to intangible assets had applied from 1 July 2005, together with the consequential tax effects.

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

	\$'000
Purchase consideration (refer to (ii) below):	
Cash paid	12,538
Deferred consideration	980
Direct costs relating to the acquisition	986
<b>Total purchase consideration</b>	<b>14,504</b>
Fair value of net identifiable assets acquired (refer to (iii) below)	3,140
<b>Goodwill (refer to (iii) below and note 17)</b>	<b>11,364</b>

Deferred consideration is payable to the previous owners of Bannockburn Travel Management. Payments are calculated based upon compound annual growth rates of earnings of the business acquired. Estimates of future payments are recognised as liabilities and have been discounted to their present values.

#### (ii) Purchase consideration

	\$'000
Outflow of cash to acquire subsidiary:	
Cash consideration (including acquisition costs)	13,524
Less: Cash acquired	1,458
<b>Outflow of cash</b>	<b>12,066</b>

#### (iii) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount	Fair value
	\$'000	\$'000
Cash	1,458	1,458
Trade receivables	837	1,772
Plant and equipment	417	417
Intangible assets	-	1,095
Trade payables	(1,594)	(1,594)
Interest bearing liabilities	(8)	(8)
<b>Net identifiable assets acquired</b>	<b>1,110</b>	<b>3,140</b>

The goodwill is attributable to the high profitability of the acquired business. The fair value of assets and liabilities acquired is based on discounted cash flow models. No acquisition provisions were created.

### (c) Disposal of subsidiaries

On 15 December 2005, the company disposed of the Seymour College group of companies in New Zealand.

The Seymour College group of companies was disposed for cash consideration of \$1,378,486. The loss on disposal of the group is \$757,781.



# Notes to and Forming Part of the Financial Statements (cont.)

## 37. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name of entity	Country of incorporation	Class of shares	Equity holding**	
			2006 %	2005 %
BDI Solutions Pty Ltd ***	Australia	Ordinary	100	100
Escape Travel Franchising Pty Ltd	Australia	Ordinary	100	-
Flight Centre (China) Pty Ltd ***	Australia	Ordinary	50	50
Flight Centres (New South Wales) Pty Ltd ***	Australia	Ordinary	100	100
Flight Centre Technology Pty Ltd *	Australia	Ordinary	100	100
Frequent Flyers Pty Limited *	Australia	Ordinary	100	100
The Great Holiday Escape Pty Ltd ***	Australia	Ordinary	100	100
Globalnet Technologies Pty Limited ***	Australia	Ordinary	100	100
Group & Conference Travel Pty Ltd ***	Australia	Ordinary	100	100
GTM Internet Travel Pty Limited ***	Australia	Ordinary	100	100
GTM Travel Australia Pty Limited ***	Australia	Ordinary	100	100
Infinity Holidays Pty Limited ***	Australia	Ordinary	100	100
Internet E. Travel Pty Limited ***	Australia	Ordinary	100	100
Internet Travel Australia Pty Limited ***	Australia	Ordinary	100	100
Intravel Group Pty Ltd ***	Australia	Ordinary	100	100
FCm Travel Solutions Pty Ltd (formerly ITG Pty Ltd) *	Australia	Ordinary	100	100
ITL Overseas Holdings Pty Limited	Australia	Ordinary	100	100
Lumina Marketing Pty Limited ***	Australia	Ordinary	100	100
Lumina Technologies Pty Ltd ***	Australia	Ordinary	100	100
Publishing Pty Ltd ***	Australia	Ordinary	100	100
Retail Detail Pty Ltd ***	Australia	Ordinary	100	100
Shanghai Journey Pty Ltd ***	Australia	Ordinary	100	100
Stage & Screen Travel & Freight Services Pty Limited *	Australia	Ordinary	100	100
Traveland Pty Ltd	Australia	Ordinary	100	100
The Flight Shops Inc **	Canada	Ordinary	100	100
The Flight Shops Inc **	Canada	Preference	100	100
Flight Centre Comfort Business Travel Services Co Ltd **	China	Ordinary	100	100
American International Travel Limited **	Hong Kong	Ordinary	100	100
Friends Globe Travels Limited **	Republic of India	Ordinary	100	-
Flight Centre (Mauritius) Limited **	Mauritius	Ordinary	100	100
Flight Centre (NZ) Limited **	New Zealand	Ordinary	100	100
The Great Escape Holiday (NZ) Limited **	New Zealand	Ordinary	100	100
Escape Travel Limited **	New Zealand	Ordinary	100	100
FFA Limited **	New Zealand	Ordinary	100	100
ITG (NZ) Holdings Limited **	New Zealand	Ordinary	-	100
Seymour College Limited **	New Zealand	Ordinary	-	100
Seymour College Christchurch Limited **	New Zealand	Ordinary	-	100
Seymour College Hamilton Limited **	New Zealand	Ordinary	-	100
Seymour College Tamaki Makaurau Limited **	New Zealand	Ordinary	-	100
Seymour College Wellington Limited **	New Zealand	Ordinary	-	100
Flight Centre (PNG) Ltd **	New Guinea	Ordinary	100	100
Flight Centre (South Africa) Pty Ltd **	Republic of Sth Africa	Ordinary	100	100
Flight Centre Travel Solutions Pty Ltd **	Republic of Sth Africa	Ordinary	100	-
Britannic Travel Limited **	United Kingdom	Ordinary	100	100
Flight Centre (UK) Limited **	United Kingdom	Ordinary	100	100
Flight Centre (UK) Corporate Limited **	United Kingdom	Ordinary	100	100
Flight Centre (UK) Corporate Limited **	United Kingdom	Preference	100	100
Flight Centre (UK) Finance Limited **	United Kingdom	Ordinary	100	100
Flight Centre (UK) Holdings Limited **	United Kingdom	Ordinary	100	100
Student Flights (UK) Limited **	United Kingdom	Ordinary	100	100
Flight Centre (USA) Inc **	USA	Ordinary	100	100
FCm Bannockburn LLC	USA	Ordinary	100	-

# Notes to and Forming Part of the Financial Statements (cont.)

## 37. Subsidiaries (cont.)

- \* These controlled entities have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information refer to note 44.
- \*\* Controlled Entity of which PricewaterhouseCoopers in Australia has not acted as auditor.
- \*\*\* Small proprietary companies for which no financial report is prepared under sections 293 and 294 of the Corporations Act 2001

## 38. Events occurring after the balance sheet date

On 21 August 2006 Flight Centre Limited entered a binding sale agreement for 316 Adelaide Street, Brisbane. Under the terms of this agreement, Flight Centre Limited will receive proceeds from the sale of \$35.5 million and recognise a gain on sale (before tax) of \$23.3 million. Under the terms of the agreement, Flight Centre will lease back approximately 70% of the building under commercial terms and conditions until 2013.

At the date of this report there is no other matter or circumstance which has arisen since 30 June 2006 that has significantly affected or may significantly affect:

- (a) the consolidated entity's operations in future years; or
- (b) the results of those operations in future years; or
- (c) the consolidated entity's state of affairs in future financial years.

## 39. Segment information

### (a) Description of segments

#### Business segments

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

2006

	Australia \$'000	New Zealand \$'000	United Kingdom \$'000	Other \$'000	Inter-segment eliminations/ unallocated \$'000	Total \$'000
<b>Total Transaction Value</b>	<b>4,884,942</b>	<b>657,733</b>	<b>961,746</b>	<b>1,323,475</b>	<b>(18,633)</b>	<b>7,809,263</b>
Sales to external customers	609,344	84,148	127,145	153,959	-	974,596
Inter segment sales (note (ii))	26,338	711	3,486	2,618	(33,153)	-
<b>Total sales revenue</b>	<b>635,682</b>	<b>84,859</b>	<b>130,631</b>	<b>156,577</b>	<b>(33,153)</b>	<b>974,596</b>
Unallocated revenue						28,140
<b>Total segment revenue</b>						<b>1,002,736</b>
Segment results pre Royalties	72,834	9,003	14,511	12,234	(851)	107,731
Royalties	12,173	(5,675)	-	(6,471)	(27)	-
<b>Segment Results</b>	<b>85,007</b>	<b>3,328</b>	<b>14,511</b>	<b>5,763</b>	<b>(878)</b>	<b>107,731</b>
Unallocated revenue less unallocated expenses						12,271
Profit from ordinary activities before income tax						120,002
Income tax expense						(40,092)
<b>Net Profit</b>						<b>79,910</b>
Segment assets	582,199	78,677	222,391	159,408	19,999	1,062,674
Unallocated assets						(31,867)
<b>Total assets</b>						<b>1,030,807</b>
Segment liabilities	286,457	52,224	117,848	83,736	7,482	547,747
Unallocated liabilities						72,175
<b>Total liabilities</b>						<b>619,922</b>
<b>Acquisitions of property, plant and equipment, intangibles and other non current segment assets</b>	<b>13,925</b>	<b>2,344</b>	<b>4,457</b>	<b>15,575</b>	<b>-</b>	<b>36,301</b>
<b>Depreciation and amortisation expense</b>	<b>20,362</b>	<b>2,772</b>	<b>3,571</b>	<b>7,081</b>	<b>2,700</b>	<b>36,486</b>
<b>Other non cash expenses</b>	<b>7,309</b>	<b>1,417</b>	<b>1,712</b>	<b>1,446</b>	<b>(778)</b>	<b>11,106</b>

# Notes to and Forming Part of the Financial Statements (cont.)

## 39. Segment information (cont.)

2005						
<b>Total Transaction Value</b>	<b>4,439,515</b>	<b>638,515</b>	<b>909,222</b>	<b>889,838</b>	<b>(4,471)</b>	<b>6,872,619</b>
Sales to external customers	551,012	90,297	122,174	106,767	-	870,250
Inter segment sales (note (ii))	11,982	402	669	323	(13,376)	-
<b>Total sales revenue</b>	<b>562,994</b>	<b>90,699</b>	<b>122,843</b>	<b>107,090</b>	<b>(13,376)</b>	<b>870,250</b>
Unallocated revenue						28,264
<b>Total segment revenue</b>						<b>898,514</b>
Segment results pre Royalties	98,824	11,408	16,039	(499)	(21,878)	103,894
Royalties	8,660	(5,716)	-	(2,664)	(280)	-
<b>Segment results</b>	<b>107,484</b>	<b>5,692</b>	<b>16,039</b>	<b>(3,163)</b>	<b>(22,158)</b>	<b>103,894</b>
Unallocated revenue less unallocated expenses						11,697
Profit from ordinary activities before income tax						115,591
Income tax expense						(38,732)
<b>Net Profit</b>						<b>76,859</b>
Segment assets	535,131	87,887	204,821	73,127	18,395	919,361
Unallocated assets						592
<b>Total assets</b>						<b>919,953</b>
Segment liabilities	258,772	60,030	103,496	34,738	(1,806)	455,230
Unallocated liabilities						92,074
<b>Total liabilities</b>						<b>547,304</b>
<b>Acquisitions of property, plant and equipment, intangibles and other non current segment assets</b>	<b>37,867</b>	<b>4,575</b>	<b>2,929</b>	<b>5,660</b>	<b>-</b>	<b>51,031</b>
<b>Depreciation and amortisation expense</b>	<b>9,191</b>	<b>4,246</b>	<b>8,010</b>	<b>5,555</b>	<b>6,247</b>	<b>33,249</b>
<b>Other non cash expenses</b>	<b>2,244</b>	<b>825</b>	<b>754</b>	<b>966</b>	<b>478</b>	<b>5,267</b>

### (b) Notes to and forming part of the segment information

#### (i) Accounting policies

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in note 1.

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.

#### (ii) Inter segment transfers

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an “arm’s length” basis and are eliminated on consolidation.

#### (iii) Unallocated revenue and expenses

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

# Notes to and Forming Part of the Financial Statements (cont.)

## 40. Reconciliation of profit after income tax to net cash inflow from operating activities

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Profit for the year	79,910	76,859	58,167	58,920
Depreciation and amortisation	36,486	33,249	13,230	12,327
Write down of non current assets	-	4,736	-	1,067
Amortisation of premium on bonds	-	175	-	175
Net loss on disposal of non current assets	1,933	1,235	473	131
Net (profit) loss on sale of investments	-	(525)	-	(525)
Share of profits of associates and joint venture partnership not received as dividends or distributions	463	314	-	-
Non cash financing costs	2,814	(412)	-	(577)
Net exchange differences	(4,057)	(1,797)	-	1,093
Decrease (increase) in trade debtors and bills of exchange	(33,787)	(26,986)	31,255	(23,088)
Decrease (Increase) in deferred tax assets	4,545	(1,462)	5,529	(2,060)
Decrease (increase) in related party loans	-	-	(28,468)	(825)
Increase (decrease) in trade creditors and other payables	41,409	22,032	2,421	18,154
Increase (decrease) in provision for income taxes payable	(6,207)	(1,504)	(6,332)	(7,857)
Increase (decrease) in provision for deferred income tax	(647)	1,368	-	424
Increase (decrease) in other provisions	(2)	10,144	322	9,365
Increase (decrease) in equity	114	170	114	170
Net cash (outflow) inflow from operating activities	122,974	117,596	76,711	66,894

## 41. Earnings per share

### (a) Reconciliations of earnings used in calculating earnings per share

	Consolidated	
	2006 \$'000	2005 \$'000
Profit attributable to the ordinary equity holders of the company used in calculating basic and diluted earnings per share	79,910	76,858

### (b) Weighted average number of shares used as the denominator

	Consolidated	
	2006 Number	2005 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	94,471,035	94,402,177
Adjustments for calculation of diluted earnings per share: Options	37,384	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	94,508,419	94,402,177

Options granted to 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. Details relating to the options are set out in note 42.

# Notes to and Forming Part of the Financial Statements (cont.)

## 42. Share-based payments

### (a) Employee Option Plan

Options are granted under the Flight Centre Limited Employee Option Plan (established in October 1997 and amended 31 October 2002) and the Senior Executive Option Plan (established March 2006). Employees and directors of the group (excluding Messrs Turner and Harris) are eligible to participate in the plan. Options may be granted to employees of the group at the discretion of the board. Directors have elected not to participate in the Flight Centre Limited Employee Option Plan during the year.

Options are granted under the plan for no consideration. Options are exercisable over fully paid unissued ordinary shares of the company. When exercisable, each option is convertible into one ordinary share. The exercise prices of the options are fixed at the time of grant.

Options granted under the plan carry no dividend or voting rights.

Challenging performance hurdles are set annually on grant date and options vest upon achieving those hurdles. The performance hurdles are generally two fold:

- (a) The total group profit target to be met; and
- (b) The respective business unit must either meet or improve upon a predetermined profit or budget target.

The plan rules provide that the total number of options which can be on issue at any time is limited such that the number of shares resulting from exercising all unexercised options does not exceed 5% of the company's then issued capital.

Set out below are summaries of options granted under the plan:

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at during the year Number
<b>Consolidated and parent 2006</b>							
14/08/00	14/08/05	\$19.71	194,942	-	-	(194,942)	-
30/11/00	30/11/05	\$23.49	40,000	-	-	(40,000)	-
01/07/01	01/07/06	\$23.52	8,880	-	-	-	8,880
24/08/01	24/08/06	\$28.68	510,070	-	-	-	510,070
30/11/01	30/11/06	\$21.98	40,000	-	-	-	40,000
06/09/02	06/09/07	\$28.40	12,000	-	-	-	12,000
31/10/02	31/10/07	\$23.73	40,000	-	-	-	40,000
14/02/03	14/02/08	\$19.69	24,789	-	-	-	24,789
14/07/03	14/07/08	\$22.46	19,800	-	-	-	19,800
30/03/06	30/03/11	\$10.66	-	360,000	-	-	360,000
Total			890,481	360,000	-	(234,942)	1,015,539
Weighted average exercise price			\$25.52	\$10.66	\$-	\$20.35	\$21.44

# Notes to and Forming Part of the Financial Statements (cont.)

## 42. Share-based payments (cont.)

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number
<b>Consolidated and parent 2005</b>							
13/08/99	13/08/04	\$7.62	393,814	-	(373,814)	(20,000)	-
27/11/99	27/11/04	\$14.15	20,000	-	(20,000)	-	-
14/08/00	14/08/05	\$19.71	222,545	-	(1,640)	(25,963)	194,942
30/11/00	30/11/05	\$23.49	40,000	-	-	-	40,000
01/07/01	01/07/06	\$23.52	9,665	-	-	(785)	8,880
24/08/01	24/08/06	\$28.68	583,330	-	-	(73,260)	510,070
30/11/01	30/11/06	\$21.98	40,000	-	-	-	40,000
06/09/02	06/09/07	\$28.40	18,000	-	-	(6,000)	12,000
31/10/02	31/10/07	\$23.73	40,000	-	-	-	40,000
14/02/03	14/02/08	\$19.69	25,997	-	-	(1,208)	24,789
14/07/03	14/07/08	\$22.46	19,800	-	-	-	19,800
Total			1,413,151	-	(395,454)	(127,216)	890,481
Weighted average exercise price			\$20.42	\$-	\$8.00	\$23.41	\$25.52

The weighted average remaining contractual life of share options outstanding at the end of the period was 2.13 years (2005: 0.90 years).

### (b) Flight Centre Limited Employee Share Plan

Share-based benefits are offered to employees through participation in the Flight Centre Limited Employee Share Plan. Full-time employees are eligible to participate in the plan whereby shares may be purchased at market value and matched with an additional contribution equivalent to 10% of the overall value invested.

Directors of the group are not eligible to participate in the plan.

Shares issued under the scheme may not be sold until the earlier of three years after issue or cessation of employment by the consolidated entity. In all other respects the shares rank equally with other fully paid ordinary shares on issue (refer to note 27(c)).

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Aggregate proceeds received from employees on the issue of shares	-	682	-	682
	No.	No.	No.	No.
Shares issued under the plan to participating employees	-	39,159	-	39,159

### (c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Share-based payment expense	416	57	416	58

# Notes to and Forming Part of the Financial Statements (cont.)

## 43. Explanation of transition to Australian equivalents to IFRS

### (1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRS (AIFRS)

	Notes	Consolidated		Parent	
		1 July 2004 \$'000	30 June 2005 \$'000	1 July 2004 \$'000	30 June 2005 \$'000
<b>Total equity (AGAAP)</b>		424,235	387,409	392,152	356,767
Derecognition of revalued software licences	(b)	(16,181)	(14,138)	-	-
Adjustment to fair value of business combination	(c)	-	(445)	-	-
Provision for decommissioning costs	(d)	(1,957)	(2,163)	(1,914)	(2,097)
Impairment of assets under AASB 136	(e)	(3,577)	(5,238)	(2,211)	(1,944)
Rent Free Period	(f)	(835)	(835)	-	-
Amortisation of goodwill	(h)	-	9,888	-	802
Derecognition of research costs	(i)	(5,398)	(5,700)	(2,095)	(1,493)
Correction of reporting under AGAAP	(j)	(4,070)	(4,692)	(4,070)	(4,692)
Tax effect of adjustments	(k)	8,250	8,563	2,042	2,234
<b>Total equity (AIFRS)</b>		<b>400,467</b>	<b>372,649</b>	<b>383,904</b>	<b>349,577</b>

The above reconciliation includes the effect of the correction of an error made under previous AGAAP. This is not an effect of transition to AIFRS. For further information refer to (j) in the notes to the reconciliations.

### (2) Reconciliation of profit for the year ended 30 June 2005

	Notes	Consolidated	Parent
		30 June 2005 \$'000	30 June 2005 \$'000
<b>Profit from ordinary activities before related income tax expense (AGAAP)</b>		106,954	83,601
Adjustment of fair value of previous business combination	(c)	(445)	-
Provision for decommissioning costs	(d)	(206)	(184)
Impairment under AASB 136	(e)	(1,928)	-
Employee Share Plan costs under AASB 2	(g)	(57)	(57)
Amortisation of goodwill	(h)	9,888	802
Derecognition of research costs	(i)	(1,217)	(53)
Amortisation of derecognised assets	(b),(e),(i)	3,223	921
Correction of error under AGAAP	(j)	(621)	(621)
<b>Profit from ordinary activities before related income tax expense (AIFRS)</b>		<b>115,591</b>	<b>84,409</b>

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statement.

### (3) Notes to the reconciliations

#### (a) Foreign currency translation reserve: cumulative translation differences

The company has elected to apply the exemption in AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards. The cumulative translation differences for all foreign operations represented in the foreign currency translation reserve are deemed to be zero at the date of transition to AIFRS. As a result, the balance of the foreign currency translation reserve of the group has decreased by \$4,708,329 with a corresponding decrease in retained profits

#### (b) Revaluation Reserve

AASB 138 'Intangible assets' prohibits the recognition of internally revalued intangible assets such as software licences. As at 1 July 2004, the effect of this change has seen the derecognition of intangible assets of \$16,180,230 and a reduction in equity and at 30 June 2005 by \$14,137,076. There is no effect on the parent entity. The effect on profit before tax for the year to 30 June 2005 is \$2,043,154 for the group and no effect on the parent entity.



# Notes to and Forming Part of the Financial Statements (cont.)

## 43. Explanation of transition to Australian equivalents to IFRS (cont.)

### (c) Business combinations

During the period to 30 June 2005 an adjustment was required to be made to the fair value of assets and liabilities acquired as part of the acquisition of the former ITG Limited businesses. Under AGAAP this adjustment is to be made against goodwill of the net assets acquired. Under AASB 3 'Business combinations' adjustments to the estimated fair value of net assets acquired under a combination must be recognised in the income statement if identified after a 12-month period.

The effect of this adjustment is to decrease goodwill by \$445,000 and decrease net profit before tax by \$445,000 at 30 June 2005. There is no effect on the parent entity.

### (d) Decommissioning costs

Under AASB 116 'Property, plant and equipment' the cost of an item of property, plant and equipment includes an initial estimate of dismantling and 'make good' costs on leased premises. The effect of this change has seen the creation of a decommissioning provision in the balance sheet with a corresponding increase in property, plant and equipment.

As at 1 July 2004 the effect for the group of this change has seen retained earnings decrease by \$1,957,069 and property plant and equipment increased by \$1,330,181. At 30 June 2005 retained earnings decreased by \$2,163,974 and property plant and equipment increased by \$1,386,026. The effect on profit before tax for the year to 30 June 2005 is \$205,878.

As at 1 July 2004 the effect for the parent of this change has seen retained earnings decrease by \$1,913,459 and property plant and equipment increased by \$1,287,181. At 30 June 2005 retained earnings decreased by \$2,097,000 and property plant and equipment increased by \$1,317,000. The effect on profit before tax for the year to 30 June 2005 is \$183,853.

### (e) Impairment

AASB 136 'Impairment of assets' requires the recoverable amount of all assets to be determined as the higher of the fair value less cost to sell or the discounted cash flows of its value in use. This differs to AGAAP where a net cash flow approach is used.

If the company had used the approach of AASB 136, a write down in assets and reduction in retained earnings of \$3,577,456 would have occurred on transition at 1 July 2004. As at 30 June 2005, an additional impairment loss of \$1,927,908 was required to the income statement. The total adjustment to equity as at 30 June 2005 is \$5,238,119. The effect on the parent entity retained earnings at 1 July 2004 is \$2,211,804 and \$1,944,559 at 30 June 2005. The effect on the profit before tax for the year ended 30 June 2005 was \$267,245 for the parent.

### (f) Rent free period

As at 1 July 2004 the group recognised a liability for rent free periods relating to leases for property which resulted in a decrease in equity at 1 July 2004 of \$835,304 for the group. There was no effect for the parent entity.

### (g) Share-based payments

Under AASB 2 Share-based Payments, from 1 July 2004 the company is required to recognise an expense for those shares that were issued to employees at a discount to the market price under the Flight Centre Limited Employee Share Plan after 7 November 2002 but that had not vested by 1 January 2005. The effect of this discount is to recognise an expense of \$57,172 for the period to 30 June 2005. The effect is the same for the parent entity.

### (h) Goodwill

Under AASB 3 'Business combinations' goodwill is no longer required to be amortised but is subject to annual impairment testing. The effects of impairment of assets are disclosed above.

The change in accounting for the amortisation of goodwill for the group has seen an increase in retained profits and an increase in profit before tax of \$9,887,875 and an increase in equity of \$9,887,875 for the year to 30 June 2005. The effect on the parent entity is an increase in profit of \$802,000 and an increase in equity of \$802,000.

### (i) Research costs

Under AASB 138 'Intangible assets' costs incurred in the research phase of an internally generated intangible asset must be expensed. The effect of this change resulted in a decrease in retained profits of \$5,396,610 at 1 July 2004 and \$5,699,445 at 30 June 2005. The effect on the parent entity is \$2,095,139 at 1 July 2004 and \$1,491,000 at 30 June 2005.

The write down in research costs reduced the profit before tax for the year to 30 June 2005 by \$1,217,104. The effect on the parent entity was \$53,000.

The effect on the profit before tax for the year to 30 June 2005 as a result of reduced depreciation was an increase of \$914,269 for the group and \$655,839 for the parent.



# Notes to and Forming Part of the Financial Statements (cont.)

## 43. Explanation of transition to Australian equivalents to IFRS (cont.)

### (j) Correction of error made under previous AGAAP

In conversion to AIFRS an adjustment has been made in the measurement of employee entitlement liabilities. Under previous reporting, employee entitlement liabilities were incorrectly stated. Changes in the company's interpretation of industrial relations legislation have required additional components of employee remuneration packages to be included in employee entitlement calculations. In addition, the future probability rates used to calculate long-term employee entitlement liabilities have been corrected to reflect accurate historical data.

Under previous AGAAP, this error would have been corrected in the period it was discovered. Under AIFRS, the 2005 comparatives have been adjusted to reflect the correction of this error. The effect of this restatement:

- at 1 July 2004 is to increase provisions by \$4,070,575 and to decrease retained profits by \$2,849,403. The effect is the same for the parent entity;
- at 30 June 2005 is to increase provisions by a further \$621,894 to \$4,692,000 and to decrease profit after tax by \$436,738. The effect is the same for the parent entity;

### (k) Tax effect of AIFRS adjustments

Each of the adjustments required in the transition from AGAAP to AIFRS has a corresponding impact on the deferred tax assets and liabilities of the group. A summary of the impact on the key balances is as follows:

The effects on the deferred tax assets and liabilities of the adoption of AIFRS are as follows (tax rate of 30%):

	Notes	Consolidated		Parent	
		1 July 2004 \$'000	30 June 2005 \$'000	1 July 2004 \$'000	30 June 2005 \$'000
Application of AASB 112 to adjustments arising from adoption of other AASBs					
Derecognition of revalued software licences	(b)	4,803	4,190	-	-
Provision for decommissioning costs	(d)	197	364	193	349
Impairment of assets under AASB 136	(e)	410	1,004	-	-
Derecognition of research costs	(i)	1,619	1,597	628	478
Correction of error	(j)	1,221	1,407	1,221	1,407
<b>Change in deferred tax assets and liabilities</b>		<b>8,250</b>	<b>8,562</b>	<b>2,042</b>	<b>2,234</b>

Flight Centre Limited and its wholly owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2003. Under previous AGAAP, the parent entity recognised current and deferred tax amounts relating transactions, events and balances of the tax consolidated entities as if those transactions, events and balances were its own.

Under AIFRS, the parent entity only recognises the current tax payable and deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

# Notes to and Forming Part of the Financial Statements (cont.)

## 44. Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgment of financial reports and directors' report.

Two separate Deeds of Cross Guarantee are in effect. The subsidiaries subject to the deeds are:

- 1) FCm Travel Solutions Pty Ltd, Frequent Flyers Pty Ltd and Stage & Screen Travel & Freight Pty Ltd
- 2) Flight Centre Technology Pty Ltd

It is a condition of the Class Order that the company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the deed is that the company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Corporations Act 2001, the company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the company is wound up.

Set out below is a consolidated income statement and a summary of movements in consolidated retained profits for the year ended 30 June 2006 comprising the company and the subsidiaries listed above.

	Flight Centre Limited & FCm Travel Solutions Pty Ltd		Flight Centre Limited & Flight Centre Technology Pty Ltd	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Income statement</b>				
Revenue from the sale of travel services	614,995	566,814	518,152	529,851
Other revenue	44,640	29,965	48,438	29,585
Other income	6,286	320	6,286	320
Selling expenses	(467,212)	(404,050)	(403,333)	(375,180)
Administration/support expenses	(82,481)	(83,882)	(71,402)	(78,018)
Finance costs	(11,251)	(16,331)	(10,478)	(18,188)
<b>Profit before income tax expense</b>	<b>104,977</b>	<b>92,836</b>	<b>87,663</b>	<b>88,370</b>
Income tax expense	(30,456)	(27,243)	(26,067)	(26,763)
<b>Profit attributable to members of Flight Centre Limited</b>	<b>74,521</b>	<b>65,593</b>	<b>61,596</b>	<b>61,607</b>
<b>Summary of movements in consolidated retained profits</b>				
<b>Retained profits at the beginning of the financial year</b>	<b>111,075</b>	<b>132,044</b>	<b>80,163</b>	<b>115,820</b>
Transfer to retained profits on assumption of entities to the class order	13,708	10,702	-	-
Profit from ordinary activities after income tax expense	74,521	65,593	61,596	61,607
Dividends provided for or paid	(45,391)	(97,264)	(45,391)	(97,264)
<b>Retained profits at the end of the financial year</b>	<b>153,913</b>	<b>111,075</b>	<b>96,368</b>	<b>80,163</b>

# Notes to and Forming Part of the Financial Statements (cont.)

## 44. Deed of cross guarantee (cont.)

Set out below is a consolidated balance sheet as at 30 June 2006 of the company and the subsidiaries listed above.

	Flight Centre Limited & FCm Travel Solutions Pty Ltd		Flight Centre Limited & Flight Centre Technology Pty Ltd	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Current assets</b>				
Cash and cash equivalents	141,931	123,834	123,263	107,083
Available for sale financial assets	170,627	-	165,818	-
Receivables	249,112	293,402	234,087	195,403
Other financial assets	-	157,080	-	157,080
Current tax receivables	4,291	-	2,870	-
Assets of disposal group classified as held for sale	12,179	-	12,179	-
<b>Total current assets</b>	<b>578,140</b>	<b>574,316</b>	<b>538,217</b>	<b>459,566</b>
<b>Non current assets</b>				
Property, plant and equipment	34,068	48,669	41,762	54,309
Intangible assets	43,151	36,281	14,331	29,253
Deferred tax assets	6,304	11,235	6,567	11,935
Other financial assets	111,160	87,731	154,246	126,534
<b>Total non current assets</b>	<b>194,683</b>	<b>183,916</b>	<b>216,906</b>	<b>222,031</b>
<b>Total assets</b>	<b>772,823</b>	<b>758,232</b>	<b>755,123</b>	<b>681,597</b>
<b>Current liabilities</b>				
Payables	292,038	296,837	263,956	269,739
Borrowings	26,518	59,576	93,334	43,309
Provisions	3,356	3,217	3,356	3,264
Current tax liabilities	-	1,919	-	668
<b>Total current liabilities</b>	<b>321,912</b>	<b>361,549</b>	<b>360,646</b>	<b>316,980</b>
<b>Non current liabilities</b>				
Payables	1,395	543	1,395	543
Borrowings	27,000	15,000	27,000	15,000
Provisions	8,342	8,255	8,342	8,252
<b>Total non current liabilities</b>	<b>36,737</b>	<b>23,798</b>	<b>36,737</b>	<b>23,795</b>
<b>Total liabilities</b>	<b>358,649</b>	<b>385,347</b>	<b>397,383</b>	<b>340,775</b>
<b>Net assets</b>	<b>414,174</b>	<b>372,885</b>	<b>357,740</b>	<b>340,822</b>
<b>Equity</b>				
Contributed equity	260,715	260,602	260,715	260,602
Reserves	(454)	1,208	657	57
Retained profits	153,913	111,075	96,368	80,163
<b>Total equity</b>	<b>414,174</b>	<b>372,885</b>	<b>357,740</b>	<b>340,822</b>

# Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 16 to 63 are in accordance with the Corporations Act 2001, including:
  - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; 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; and
- (c) the audited remuneration disclosures set out on pages 7 to 11 of the directors' report comply with Accounting Standards AASB 124 Related Party Disclosures and the Corporations Regulations 2001; and
- (d) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 44 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee described in note 44.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the directors.



**G.F. Turner**

Director

**BRISBANE**

13 September 2006

**PricewaterhouseCoopers**  
**ABN 52 780 433 757**

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## **Independent audit report to the members of Flight Centre Limited**

### **Matters relating to the electronic presentation of the audited financial report**

This audit report relates to the concise financial report of Flight Centre Limited (the Company) for the financial year ended 30 June 2006 included on Flight Centre Limited's web site. The Company's directors are responsible for the integrity of the Flight Centre Limited web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the concise financial report identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the concise financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited concise financial report to confirm the information included in the audited concise financial report presented on this web site.

### **Audit opinion**

In our opinion

1. the financial report of Flight Centre Limited:
  - gives a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of Flight Centre Limited and the FCL Group (Defined below) as at 30 June 2006, and of their performance for the year ended on that date, and
  - is presented in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, and the Corporations Regulations 2001.
2. the remuneration disclosures that are contained on pages 7 to 11 of the directors' report comply with Accounting Standard AASB 124 Related Party Disclosures (AASB 124) and the Corporations Regulations 2001.

This opinion must be read in conjunction with the rest of our audit report.

### **Scope**

#### **The financial report and directors' responsibility**

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for both Flight Centre Limited (the company) and the FCL group (the consolidated entity), for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information about the remuneration of key management personnel (remuneration disclosures) as required by AASB 124, under the heading 'remuneration report' on pages 7 to 11 of the directors' report, as permitted by the Corporations Regulations 2001.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

## Independent audit report to the members of Flight Centre Limited cont.

### Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with AASB 124 and the Corporations Regulations 2001. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations, changes in equity and cash flows. We also performed procedures to assess whether the remuneration disclosures comply with AASB 124 and the Corporations Regulations 2001.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and remuneration disclosures, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

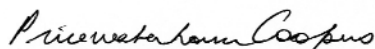
Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

### Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

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PricewaterhouseCoopers



R J Roach  
Partner

Brisbane

13 September 2006

Liability limited by a scheme approved under Professional Standards Legislation

# Shareholder Information

The shareholder information set out below was applicable as at 31 August 2006.

## A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

	Number of Shareholders
1 – 1000	10,828
1,001 – 5,000	3,040
5,001 – 10,000	309
10,001 – 100,000	175
100,001 and over	29
	14,381

There were 1,831 holders of less than a marketable parcel of ordinary shares.

The percentage of the total holding of the 20 largest shareholders was 80.90%.

## B. Equity security holders

*Twenty largest quoted equity security holders*

The names of the 20 largest holders of quoted equity securities are listed below:

Name	Ordinary shares	Percentage
	Number held	of issued shares
Gehar Ptd Ltd (Geoffrey Harris Family a/c)	16,248,302	17.20
Gainsdale Pty Ltd (G.F. Turner Family a/c)	16,213,340	17.16
James Management Services Pty Limited (ATF The James Management a/c)	13,529,500	14.32
Westpac Custodian Nominees Limited	6,508,567	6.89
National Nominees Limited	5,859,860	6.20
Chase Manhattan Nominees Limited	5,352,304	5.67
Invia Custodian Pty Limited (PIB Goldburg Family a/c)	4,000,000	4.23
Invia Custodian Pty Limited (PIB Friday Investments Pty Ltd AD#2 a/c)	1,174,502	1.24
Invia Custodian Pty Limited (PIB Friday Investments Pty Ltd ND EQF a/c)	1,150,000	1.22
Citicorp Nominees Pty Limited	1,042,538	1.10
Cogent Nominees Pty Limited	1,011,106	1.07
Trinity Holdings Limited	961,833	1.02
Citicorp Nominees Pty Limited (CFS CWLTH BOFF Super a/c)	542,730	0.57
ANZ Nominees Limited	483,837	0.51
Queensland Investment Corporation	466,442	0.49
Shane Joseph Flynn	400,133	0.42
Invia Custodian Pty Limited (PIB Friday Investments Pty Ltd ND a/c)	400,000	0.42
Gainsdale Pty Ltd (G.F. Turner Family a/c)	394,737	0.42
Citicorp Nominees Pty Limited (CFS CWLTH Aust Shares 18 a/c)	357,263	0.38
Gainsdale Pty Ltd (G.F. Turner Family a/c)	350,000	0.37
	76,446,994	80.90

# Shareholder Information (cont.)

## C. Substantial holders

Substantial holders in the company are set out below:

	Number held	Percentage
Ordinary shares		
Gainsdale Pty Ltd	17,058,077	18.06%
Gehar Pty Ltd	16,248,302	17.20%
James Management Services Pty Limited	13,539,750	14.33%
Lazard Asset Management Services Pacific Co	11,759,672	12.45%
Perennial Investment Partners Ltd	6,960,032	7.37%
Friday Investments Pty Ltd	6,724,502	7.12%
Commonwealth Bank of Australia	4,761,493	5.04%

Trinity Holdings Pty Ltd is potentially a substantial shareholder as it is party to a pre-emptive agreement dated 5 October 1995 between Gainsdale Pty Ltd, Gehar Pty Ltd, James Management Services Pty Limited and Friday Investments Pty Ltd. This agreement binds each of the parties to give first right of refusal on the purchase of shares in the company. Trinity Holdings Pty Ltd held 961,833 shares (1.02%) as at 31 August 2006.

The voting rights attaching to each class of equity securities are set out below:

(a) Ordinary shares

On a show of hands, every member present at a meeting in person or by proxy shall have one vote. Upon a poll, each share shall have one vote.



# Corporate Directory

<b>Directors</b>	G.F. Turner P.F. Barrow H.L. Stack B.R. Brown (Appointed 20 December 2005) S.J. Flynn (Resigned 1 September 2005) G.L. Harris
<b>Secretary</b>	G.Pringle
<b>Notice of annual general meeting</b>	The annual general meeting of Flight Centre Limited
<b>will be held at:</b>	Novotel Brisbane 200 Creek Street Brisbane QLD 4000
<b>time</b>	11:30am
<b>date</b>	26 October 2006
	A formal notice of meeting is enclosed
<b>Principal registered office in Australia</b>	Level 13, 316 Adelaide Street Brisbane QLD 4000
<b>Share and debenture register</b>	Computershare Investor Services Pty Ltd Central Plaza One Level 32, 345 Queen Street Brisbane QLD 4000
<b>Auditor</b>	PricewaterhouseCoopers Waterfront Place Level 17, 1 Eagle Street Brisbane QLD 4000
<b>Solicitors</b>	Allens Arthur Robinson Level 32, Riverside Centre Brisbane QLD 4000
<b>Bankers</b>	Westpac Banking Corporation 260 Queen Street Brisbane QLD 4000  Commonwealth Bank of Australia 240 Queen Street Brisbane QLD 4000  National Australia Bank 255 Adelaide Street Brisbane QLD 4000  Citibank 2 Park Street Sydney NSW 2000
<b>Stock exchange listing</b>	Flight Centre Limited shares are listed on the Australian Stock Exchange.
<b>Website address</b>	<a href="http://www.flightcentre.com.au">www.flightcentre.com.au</a>

# Company vision, purpose and philosophies

*For our company to survive, grow and prosper for the next 100 years and beyond, we must clearly define and live by our vision, purpose and philosophies. We must protect and further develop our company culture and philosophies. Our culture must be robust and independent, with the ability to outlive our current and future leaders.*



## Our Vision

**'To be the world's most exciting travel company, delivering an amazing experience to our people, customers and partners.'**

## Our Purpose

**'To open up the world for those who want to see.'**

**For our people** this means our purpose is to open up their world by helping them develop professionally and personally.

**For our customers** this means opening up their world through the exciting medium of well-organised, targeted and great value travel experiences.

**For our shareholders** it is giving them a magnificent return on their investment.

## Our Philosophies

### 1. OUR PEOPLE

Our company is our people. We care for our colleagues' health and wellbeing, their personal and professional development and their financial security. We believe that work should be challenging and fun for everyone and through work we contribute to our community.

### 2. OUR CUSTOMER

We recognise that our customers always have a choice. Therefore a superior customer service experience, provided with honesty, integrity and a great attitude, is key to our company's success, as is the travel experience we provide.

### 3. PROFIT

A fair margin resulting in a business profit is the key measure of whether we are providing our customers with a product and service they value.

### 4. OWNERSHIP

We believe each individual in our company should have the opportunity to share in the company's success through outcome-based incentives, profit share, BOS (franchises) and Employee Share Schemes. It is important that business leaders and business team members see the business they run as their business.

### 5. INCENTIVES

Incentives are based on measurable and reliable outcome-based KPIs. We believe that 'what gets rewarded, gets done'. If the right outcomes are rewarded, our company and our people will prosper.

### 6. BRIGHTNESS OF FUTURE

We believe our people have the right to belong to a Team (family), a Village, an Area (tribe) and Nation (hierarchy) that will provide them with an exciting future and a supportive working community. They also have the right to see a clear pathway to achieving their career goals. Promotion and transfers from within will always be our first choice.

### 7. OUR STANDARD SYSTEMS – ONE BEST WAY

In our business there is always 'one best way' to operate. These are standard systems employed universally until a better way is shown. This improved way becomes the 'one best way system'. We value common sense over conventional wisdom.

### 8. FAMILY, VILLAGE, TRIBE

Our structure is simple, lean, flat and transparent, with accessible leaders.

There is a maximum of 4 and sometimes 5 layers. The village is an unfunded, self-help support group that forms an integral part of our structure.

1. Teams (the family) (minimum 3, maximum 7 members)  
Villages (minimum 3, maximum 7 teams)
2. Areas (tribe) (minimum 10, maximum 20 teams)
3. Nations (minimum 8, maximum 15 areas)
4. Regions/States/Countries (minimum 4, maximum 8 nations)
5. Global Executive Team/Board.

### 9. TAKING RESPONSIBILITY

We take full responsibility for our own success or failure. We do not externalise. We accept that we have total ownership and responsibility, but not always control. As a company we recognise and celebrate our individual and collective successes.

### 10. EGALITARIANISM AND UNITY

In our company, we believe that each individual should have equal privileges and rights. In Leisure and Corporate, in Australia and overseas, and in organically grown and acquired businesses, there should be no 'them and us'.



## Our Brands



