

Flight Centre Limited
ASX Preliminary final report
ABN 25 003 377 188
for the year ended 30 June 2006

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ASX Preliminary final report - 30 June 2006

Lodged with the ASX under listing Rule 4.3A

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This concise financial report is an extract from the full financial report for the year ended 30 June 2006. The financial statements and specific disclosures included in the concise financial report have been derived from the full financial report. This concise financial report is presented in the 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

The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of Flight Centre Limited and its subsidiaries as the full financial report. Further financial information can be obtained from the full financial report.

The concise financial report was authorised for issue by the directors on 31 August 2006.

For the year ended 30 June 2006
(Previous corresponding period: Year ended 30 June 2005)

**Results for Announcement to the Market
30 June 2006**

				\$'000
Revenue from ordinary activities (Appendix 4E item 2.1)	up	11%	to	998,679
Profit / (loss) from ordinary activities after tax attributable to members (Appendix 4E item 2.2)	up	4%	to	79,910
Net profit / (loss) for the period attributable to members (Appendix 4E item 2.3)	up	4%	to	79,910

Dividends / distributions (Appendix 4E item 2.4)	Amount per security	Franked amount per security
Final dividend	32.0 cents	32.0 cents
Interim dividend	20.0 cents	20.0 cents

Record date for determining entitlements to the interim dividend

22 September 2006

A STRONGER second half performance has helped Flight Centre Limited record a \$120.0million pre tax profit for 2005/06, a 4% improvement on 2004/05.

After being 4% down (at \$49.8 million) at December 31, the company's pre tax profit for the six months to June 30 was \$70.2 million, 10% higher than the second half of 2004/05.

After tax, profit for the full year was \$79.9million, a 4% increase.

Sales continued to grow, with total transaction value increasing 13.6% to \$7.8 billion and revenue increasing 11.6% to \$1 billion. This slower revenue growth reflects airlines' increased application of zero margin surcharges.

Capital expenditure was \$36.1 million.

Earnings per share increased 4% to 84.6 cents.

The company's directors have declared a fully franked final dividend of 32 cents per share, payable on October 13 to shareholders registered on September 22. This follows an interim dividend of 20 cents per share.

Review of Operations

While the Australian leisure business was again Flight Centre Limited's largest profit generator, its results were disappointing and its performance overshadowed by other businesses in 2005/06.

The company expects its leisure businesses in Australia and overseas to remain an important contributor to both its brand and profits, but also sees its growing diversity as one of its future strengths.

Flight Centre Limited is now more than just an Australian-based leisure travel specialist, as reflected in its corporate travel growth overseas.

In just two years, the company has expanded the FCm network to more than 50 countries and secured both equity and strong local partnerships in the world's emerging new business economy known as BRIC – Brazil, Russia, India and China.

Given this strong growth, Flight Centre Limited anticipates FCm Travel Solutions will account for at least half of the company's overall profit within five years.

Australia

The company recorded reasonable "front-end" leisure results in Australia, but overall results and its ability to achieve over-ride targets were affected by increases in zero margin surcharges applied by airlines. Enhancements included the introduction of an innovative new Shop of the Future design and the launch of the company's first franchise model (Escape Travel).

Online operations continued to grow. Flight Centre Hotels was launched and quickbeds.com was expanded. flightcentre.com was again judged Australia's number one travel agency website by visits (Source: Hitwise) for 2005.

The corporate business recorded good profit and sales growth.

Overseas

Key contributors to the company's results included:

- FCm Travel Solutions globally
- South Africa, where leisure and corporate profits increased significantly from a relatively small base
- North America, with increased corporate travel profit, Canada's leisure business returning to profit in the second half after three years of losses and slightly reduced USA leisure losses
- India, where returns from the company's 2005 acquisition exceeded expectations
- The reduction of some global costs that were significant in the previous two years

Elsewhere, the company's UK operation recorded disappointing profit growth. There was, however, significant investment in the leisure business with 17 new shops opening. Flight Centre Limited will target greater future profit growth in both corporate and leisure travel in this market.

Results in New Zealand were below expectations, with margin under pressure from a monopoly home carrier. This has created profitability concerns in the corporate business, but there is a realistic retail turnaround opportunity.

In the United States, corporate results were again strong and losses from leisure travel operations reduced slightly, with the three Chicago shops displaying good prospects.

The company's LA retail strategy will be reviewed.

2006/07 Strategies and Outlook

Flight Centre Limited has identified six key issues for the year ahead. Strategies that are in place to address these issues and drive future growth are outlined below.

ISSUE	KEY STRATEGIES
Growth	Continued expansion in leisure, wholesale (Infinity Holidays) and corporate, mainly outside Australia Any acquisitions in both leisure and corporate likely to be small, profitable businesses with niche product or services.
Gross Margins	Ongoing push for surcharges to be included in margin slowly gaining momentum – Emirates and Jetstar now “fuel inclusive”, other carriers expected to follow suit Promotion of airline and land-based products that offer reasonable margin
Online	Further enhancements required to improve informational and transactional capabilities to leisure and corporate websites and technology platform
People	Focus on attracting and retaining the right people Career development programs in place, in-house university program and flexible workplace arrangements introduced – job-share, part-time and work-from-home opportunities
Costs	Ongoing cost reduction Cost increases inevitable in frontline businesses, so further head office overhead reductions necessary
Customer Experience	Specific and targeted customer initiatives underway, focusing on service, improving response times and in-store experience

There are some significant current and future challenges, mainly related to airfare margins and supplier disintermediation facilitated by the internet, but the company's fundamentals remain sound.

Sales continue to grow, the company maintains a healthy balance sheet and continues to develop and enhance a comprehensive sales network that already includes:

- Flight Centre, one of Australia's most valuable and successful brands
- One of the world's fastest-growing corporate networks in FCm Travel Solutions
- A stable of increasingly popular global travel websites such as flightcentre.com, quickbeds.com and fcctravel.com, plus Australian sites escapetravel.com.au and studentflights.com.au

Building from these sound foundations, Flight Centre Limited will again target double-digit TTV growth globally in 2006/07.

With its focus on cost reduction and overall business improvement, the company's goal is to bring profit growth closer into line with this TTV growth.

Flight Centre Limited
Income statement
30 June 2006

		Consolidated	
		2006	2005
	Notes	\$'000	\$'000
Revenue from continuing operations			
Revenue from the sale of travel services	2	973,711	871,108
Other revenue from ordinary activities	2	<u>24,968</u>	<u>25,570</u>
Total for Revenue from continuing operations		998,679	896,678
Other income		4,057	1,836
Selling Expenses		(761,671)	(691,613)
Administration/support expenses		(105,457)	(75,348)
Finance costs		(15,143)	(15,648)
Share of loss of joint venture accounted for using the equity method	5	<u>(463)</u>	<u>(314)</u>
Profit before income tax expense		120,002	115,591
Income tax expense		<u>(40,092)</u>	<u>(38,732)</u>
Profit attributable to members of Flight Centre Limited		<u>79,910</u>	<u>76,859</u>
		Cents	Cents
Earnings per share for profit from continuing operations, and earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per share	10	84.6	81.4
Diluted earnings per share	10	84.5	81.4

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

Flight Centre Limited
Balance sheet
30 June 2006

		Consolidated	
		2006	2005
	Notes	\$'000	\$'000
ASSETS			
Current assets			
Cash and cash equivalents	4	274,188	239,604
Available-for-sale financial assets		204,831	-
Receivables		244,987	211,200
Other financial assets		-	192,738
Current tax receivables		5,596	-
Assets of disposal group classified as held for sale		12,179	-
Total current assets		<u>741,781</u>	<u>643,542</u>
Non-current assets			
Property, plant and equipment		78,486	91,239
Intangible assets		196,086	165,671
Deferred tax assets		12,206	16,751
Investments accounted for using the equity method		2,248	2,750
Total non-current assets		<u>289,026</u>	<u>276,411</u>
Total assets		<u>1,030,807</u>	<u>919,953</u>
LIABILITIES			
Current liabilities			
Payables		499,824	460,653
Borrowings		43,662	37,793
Provisions		3,401	3,116
Current tax liabilities		2,533	3,144
Total current liabilities		<u>549,420</u>	<u>504,706</u>
Non-current liabilities			
Payables		34,682	17,844
Borrowings		27,000	15,000
Deferred tax liabilities		378	1,025
Provisions		8,442	8,729
Total non-current liabilities		<u>70,502</u>	<u>42,598</u>
Total liabilities		<u>619,922</u>	<u>547,304</u>
Net assets		<u>410,885</u>	<u>372,649</u>
EQUITY			
Contributed equity		260,715	260,602
Reserves		(7,769)	(11,373)
Retained profits	6	157,939	123,420
Total equity		<u>410,885</u>	<u>372,649</u>

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

Flight Centre Limited
Statement of changes in equity
30 June 2006

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

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

Flight Centre Limited
Cash flow statement
30 June 2006

	Consolidated	
	2006	2005
Notes	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (including GST)	1,021,427	885,005
Payments to suppliers and employees (including GST)	(862,853)	(736,025)
	<u>158,574</u>	<u>148,980</u>
Interest received	24,078	24,891
Interest paid	(16,982)	(16,059)
Income taxes paid	(42,696)	(40,216)
Net cash (outflow) inflow from operating activities	<u>122,974</u>	<u>117,596</u>
Cash flows from investing activities		
Payment for purchase of businesses, net of cash acquired	(18,965)	(22,727)
Payments for property, plant and equipment	(22,827)	(31,840)
Payments for intangibles	(13,228)	(19,425)
Payments for investments	(75,002)	(44,941)
Proceeds from sale of investments	63,171	94,427
Proceeds from sale of property, plant and equipment	4,354	1,536
Net cash (outflow) inflow from investing activities	<u>(62,497)</u>	<u>(22,970)</u>
Cash flows from financing activities		
Proceeds from issues of shares and other traded securities	-	3,846
Proceeds from borrowings	12,000	53,558
Repayment of borrowings	(5,600)	(57,552)
Dividends paid to company's shareholders	(45,391)	(97,264)
Repayment of lease liabilities	-	(21)
Net cash inflow (outflow) from financing activities	<u>(38,991)</u>	<u>(97,433)</u>
Net increase (decrease) in cash held	<u>21,486</u>	<u>(2,807)</u>
Cash and cash equivalents at the beginning of the financial year	238,728	240,296
Effects of exchange rate changes on cash and cash equivalents	1,629	1,239
Cash and cash equivalents at end of year	<u>261,843</u>	<u>238,728</u>

Financing arrangements

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

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 (AIFRSs), 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.

1 Summary of significant accounting policies (continued)

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 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 or 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 de-consolidated 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, and 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 5.

(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.

(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:

1 Summary of significant accounting policies (continued)

- 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 are 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. 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 they 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.

1 Summary of significant accounting policies (continued)

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 stand alone taxpayer in its own right.

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.

(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.

1 Summary of significant accounting policies (continued)

(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 associates, are brought to account at cost and dividend income is recognised in the income statement when receivable.

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 an 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
- Other financial assets
- Reserves and retained profits

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,

1 Summary of significant accounting policies (continued)

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 instrument that does 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	2-8 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.

(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.

1 Summary of significant accounting policies (continued)

(n) Employee benefits

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

Liabilities for wages and salaries, including non-monetary benefits, 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.

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 are 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 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. 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 on a monthly basis.

(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.

1 Summary of significant accounting policies (continued)

(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.

(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 may be 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(k).

1 Summary of significant accounting policies (continued)

(t) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorized 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 cost 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.

(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 company 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 in respect of amounts payable by wholly-owned subsidiaries, and a guarantee given to debenture holders for amounts assumed by a third party as the result of a debt defeasance. 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 Revenue

	Consolidated	
	2006	2005
	\$'000	\$'000
Total Transaction Value (TTV)	7,809,263	6,872,619
<i>Revenue from the sale of travel services</i>		
Commission and fees from the provision of travel	727,370	638,213
Revenue from the provision of travel	230,460	211,428
Other revenue	15,881	21,467
	<u>973,711</u>	<u>871,108</u>
<i>Other revenue</i>		
Rents and sub-lease rentals	890	679
Interest	24,078	24,891
	<u>24,968</u>	<u>25,570</u>

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.

3 Dividends

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

(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

<u>30,231</u>	<u>26,497</u>
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(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.

3 Dividends (continued)

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

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 a liability 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).

4 Current assets - Cash and cash equivalents

	Consolidated	
	2006	2005
	\$'000	\$'000
Cash at bank and on hand	61,816	31,518
Term Deposits	51,639	67,367
Client account	<u>160,733</u>	<u>140,719</u>
	<u>274,188</u>	<u>239,604</u>

(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	
	2006	2005
	\$'000	\$'000
Balances as above	274,188	239,604
Bank overdrafts	<u>(12,345)</u>	<u>(876)</u>
Balances per statement of cash flows	<u>261,843</u>	<u>238,728</u>

(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 3 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 3 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%)

5 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 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	2005
	\$'000	\$'000
Carrying amount of investment in joint venture	2,248	2,750

	Consolidated	
	2006	2005
	\$'000	\$'000
Share of joint venture assets and liabilities		
Current assets	2,185	759
Non-current assets	150	74
Total assets	2,335	833
Current liabilities	1,282	420
Net assets	1,053	413

Share of joint venture's revenue, expenses and results

Revenues	539	449
Expenses	(1,002)	(763)
Loss before income tax	(463)	(314)

Share of joint venture's commitments

Lease commitments	10	10
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6 Reserves and retained profits

Retained profits

	Consolidated	
	2006	2005
	\$'000	\$'000
Balance 1 July	123,420	143,825
Profit for the year	79,910	76,859
Dividends	(45,391)	(97,264)
Balance 30 June	157,939	123,420

7 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
Total purchase consideration	<u>18,752</u>
Fair value of net identifiable assets acquired (refer to (iii) below)	<u>3,562</u>
Goodwill (refer to (iii))	<u>15,190</u>

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
Outflow of cash	<u>6,899</u>

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 are 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:

7 Business combination (continued)

	Acquiree's carrying amount \$'000	Fair value \$'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)
Net identifiable assets acquired	<u>3,174</u>	<u>3,562</u>

(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	<u>986</u>
Total purchase consideration	14,504
Fair value of net identifiable assets acquired (refer to (iii) below)	<u>3,140</u>
Goodwill (refer to (iii))	<u>11,364</u>

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.

7 Business combination (continued)

(ii) Purchase consideration

	\$'000
Outflow of cash to acquire subsidiary:	
Cash consideration (including acquisition costs)	13,542
Less: Cash acquired	1,458
Outflow of cash	<u>12,066</u>

(iii) Assets and liabilities acquired

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

	Acquiree's carrying amount \$'000	Fair value \$'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)
Net identifiable assets acquired	<u>1,110</u>	<u>3,140</u>

The goodwill is attributable to the high profitability of the acquired business. The fair value of assets and liabilities acquired are 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.

8 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.

9 Segment information

(a) Description of segments

Business segments

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

	Australia \$'000	New Zealand \$'000	United Kingdom \$'000	Other \$'000	Inter- segment eliminations/ unallocated \$'000	Total \$'000
2006						
Total Transaction Value	4,884,942	657,733	961,746	1,323,475	(18,633)	7,809,263
Sales to external customers	609,344	84,148	127,145	153,959	-	974,596
Intersegment sales (note (ii))	26,338	711	3,486	2,618	(33,153)	-
Total sales revenue	635,682	84,859	130,631	156,577	(33,153)	974,596
Unallocated revenue	-	-	-	-	-	28,140
Total segment revenue	635,682	84,859	130,631	156,577	(33,153)	1,002,736
Segment result pre Royalties	72,834	9,003	14,511	12,234	(851)	107,731
Royalties	12,173	(5,675)	-	(6,471)	(27)	-
Unallocated revenue less unallocated expenses						12,271
Profit from ordinary activities before income tax						120,002
Income tax expense						(40,092)
Net Profit						79,910
Segment assets	582,199	78,677	222,391	159,408	19,999	1,062,674
Unallocated assets						(31,867)
Total assets						1,030,807
Segment liabilities	286,457	52,224	117,848	83,736	7,482	547,747
Unallocated liabilities						72,175
Total liabilities						619,922
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	13,925	2,344	4,457	15,575	-	36,301
Depreciation and amortisation expense	20,362	2,772	3,571	7,081	2,700	36,486
Other non-cash expenses	7,309	1,417	1,712	1,446	(778)	11,106
2005						
Total Transaction Value	4,439,515	638,515	909,222	889,838	(4,471)	6,872,619
Sales to external customers	551,012	90,297	122,174	106,767	-	870,250
Intersegment sales (note (ii))	11,982	402	669	323	(13,376)	-
Total sales revenue	562,994	90,699	122,843	107,090	(13,376)	870,250
Unallocated revenue	-	-	-	-	-	28,264
Total segment revenue	562,994	90,699	122,843	107,090	(13,376)	898,514
Segment result pre Royalties	98,824	11,408	16,039	(499)	(21,878)	103,894
Royalties	8,660	(5,716)	-	(2,664)	(280)	-
Unallocated revenue less unallocated expenses						11,697
Profit from ordinary activities before income tax expense						115,591
Income tax expense						(38,732)
Net Profit						76,859
Segment assets	535,131	87,887	204,821	73,127	18,395	919,361
Unallocated assets						592

9 Segment information (continued)

Total assets						919,953
Segment liabilities	258,772	60,030	103,496	34,738	(1,806)	455,230
Unallocated liabilities						92,074
Total liabilities						547,304
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	37,867	4,575	2,929	5,660	-	51,031
Depreciation and amortisation expense	9,191	4,246	8,010	5,555	6,247	33,249
Other non-cash expenses	2,244	825	754	966	478	5,267

(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.

10 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.

11 Explanation of transition to Australian equivalents to IFRSs

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

Consolidated			
	Notes	1 July 2004 \$'000	30 June 2005 \$'000
Total equity (AGAAP)		424,235	387,409
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)
Impairment of assets under AASB 136	(e)	(3,577)	(5,238)
Amortisation of goodwill	(h)	-	9,888
Derecognition of research costs	(i)	(5,398)	(5,700)
Correction of reporting under AGAAP	(j)	(4,070)	(4,692)
Tax effect of adjustments	(k)	8,250	8,563
Rent Free Period	(f)	(835)	(835)
Total equity (AIFRS)		<u>400,467</u>	<u>372,649</u>

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

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

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

The adoption of AIFRSs 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

11 Explanation of transition to Australian equivalents to IFRSs (continued)

(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.

(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 FCM Travel Solutions Pty Ltd (formerly ITG Pty Ltd). 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.

(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 increase by \$1,330,181. At 30 June 2005 retained profits 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.

(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 be taken to the income statement. The total adjustment to equity as at 30 June 2005 is \$5,238,119.

(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.

(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.

(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.

11 Explanation of transition to Australian equivalents to IFRSs (continued)

(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 write down in research costs reduced the profit before tax for the year to 30 June 2005 of \$1,217,104.

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.

(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 our 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.
- 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.

(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	1 July 2004 Consolidated \$'000	30 June 2005 Consolidated \$'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
Impairment of assets under AASB 136	(e)	410	1,004
Derecognition of research costs	(h)	1,619	1,597
Correction of error	(i)	1,221	1,407
Change in deferred tax assets and liabilities		<u>8,250</u>	<u>8,562</u>

12 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.

13 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(k). 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.

NTA Backing (*Appendix 4E item 9*)

	2006	2005
Net tangible asset backing per ordinary share	2.27	2.52

Appendix 4E items 15 – 17

This report is based on accounts which are in the process of being audited.