

Flight Centre Limited Annual Report **2007**



Our Vision

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

Our Brands

























Contents

| Chairman's Review | 4 | Shareholder information | | | | |
|------------------------------------|----|--|--|--|--|--|
| Strategic Outlook | 6 | Auditor: Bankers: | PricewaterhouseCoopers Westpac, National Australia Bank, Commonwealth Bank Citibank, ANZ | | | |
| International Review | 8 | Solicitors: Share register: | Allens Arthur Robinson Computershare Investor Services Pty Ltd | | | |
| Operational Review | 10 | Registered of | fices | | | |
| Flagship Brands | 12 | Flight Centre Lir Level 13, 316 A Brisbane 4000 | | | | |
| Leisure Brands | 13 | | ey dates 2007/08 | | | |
| Corporate Brands | 14 | August 23: September 21: | Full year results announced 2006/07 final dividend record date | | | |
| Wholesale and Complementary Brands | 15 | October 12: November 1: | 2006/07 final dividend payment date Annual general meeting | | | |
| Accommodation Websites | 16 | February 21: March 7: March 28: | 2007 half year result announcement Interim dividend record date | | | |
| Corporate Governance | 16 | Contacts | Interim dividend payment date | | | |
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Results in Brief

| | | FY: | 2007 | Adjusted FY 2006 | % V a | riance |
|---------------------------|--------------------------------|----------|-------------|------------------|--------------|-------------|
| | | Actual | ex Abnormal | Actual | Actual | ex Abnormal |
| Total Transaction Value - | - TTV | \$8.9b | | \$7.8b | 14% | |
| Revenue | | \$1.15b | | \$1.0b | 15% | |
| EBITDA | | \$197.4m | \$175.0m | \$147.0m | 34% | 19% |
| EBIT | | \$161.3m | \$138.8m | \$110.5m | 45% | 25% |
| Profit before Tax | | \$174.0m | 151.6m | \$119.4m | 45% | 26% |
| Profit after Tax | | \$120.8m | | \$79.4m | 51% | |
| Dividend | - Total | 66 cents | | 52 cents | 27% | |
| | - Interim | 20 cents | | 20 cents | 0% | |
| | - Final | 46 cents | | 32 cents | 44% | |
| Business Units | - Total | 1588 | | 1622 | | |
| | - Leisure & Corporate | 1518 | | 1393 | 9% | |
| | - Wholesale/ Complementary* | 70 | | 229 | | |

^{*}Various wholesale businesses were reclassified for accounting purposes during 2006/07. This led to a decrease in overall numbers in this category at 30 June 2007. Abnormal relates to the company's sale of 316 Adelaide Street, Brisbane

Chairman's Review by Bruce Brown



Welcome to Flight Centre Limited's annual report for 2006/07.

The 12 months to June 30 2007 will be remembered as an eventful but highly successful year for the company, with FLT delivering:

- Record financial results, including its first \$100million after tax profit
- Improved shareholder returns in the form of increased dividends
- Enhanced customer offerings through new marketing initiatives, shop design and a broader product range and;
- A stronger business base for the future through ongoing expansion, strategic acquisitions and continued investment in its people, systems and IT platform

These notable achievements did, of course, correspond with significant events relating to the company's ownership structure.

In February 2007, shareholders voted against a proposal that would have seen FLT return to private ownership under the control of a consortium that included FLT's founders and Pacific Equity Partners (PEP).

Following the privatisation's rejection, PEP returned with a proposal to create a leveraged joint venture. This proposal was based on the transfer of assets to a joint venture valued at \$1.6billion, a price that was ultimately deemed to be approximately \$400million less than fair value.

The ramifications of this higher valuation were that increased costs inherent to the transaction meant it was no longer economically viable – or in shareholders' best interests – to proceed.

Consequently, FLT's founders, who together held 58% of the company's shares, withdrew their support.

Financial performance

In terms of the company's financial performance, FLT achieved:

- 26% pre tax profit growth to \$151.6million, excluding the \$22.4m abnormal gain on the sale of the company's Brisbane city headquarters
- 51% growth in after-tax profit to \$120.8million, including proceeds from the building sale
- 51% growth in earnings per share to \$1.28
- 14% growth in total transaction value to \$8.9billion and;
- 15% revenue growth to \$1.15billion

Income margin, revenue as a percentage of TTV, increased from 12.79% to 12.98%.

A strong second half was the key to FLT's achievements in 2006/07, after modest growth during the first half.

During the second half, FLT easily surpassed its results during the previous corresponding period by recording:

- 16% TTV growth
- 21% revenue growth
- 40% pre tax profit growth a \$99million result for the six-month period
- 47% growth in after tax profit

At 30 June 2007, FLT's assets included \$636million in client and company cash and investments, compared to \$479million at the end of the 2005/06 financial year. Of this figure, company cash and company investments totalled \$180million, up from \$160million one year earlier.

After considering FLT's company cash position, its anticipated requirements for 2007/08 and its improved performance late in 2006/07, the directors declared a \$0.46 per share fully franked final dividend, payable on October 12 2007 to shareholders registered on September 21 2007. This final dividend followed a fully franked \$0.20 per share interim dividend paid in March 2007.

The company also made solid progress in addressing the six key issues that were identified as priorities at the start of 2006/07. Updates are included in the accompanying table.

With the progress made during 2006/07 and the strategies that are in place for 2007/08, FLT can look to the year ahead with considerable optimism.

Various challenges remain, particularly in the areas of margin improvement and cost reduction, but the business fundamentals are sound and management is focussed on achieving the desired results.

As announced previously, independent director Howard Stack and myself will resign our Board positions following November's Annual General Meeting and the appointment of replacement independent directors.

At this time, I would like to thank Howard for his efforts and oversight of the company over the past 12 years and wish him well in his future endeavours. In the past year in particular, Howard provided valuable and forward thinking contributions during what was a very challenging period.

I would also like to wish prospective independent directors Peter Morahan and Gary Smith well as they seek shareholder approval at the AGM.

In conclusion, I would like to congratulate FLT's people, from the retail travel agents and corporate account managers to the senior management team.

These people were integral to the many notable achievements that made 2006/07 a year to remember and can justifiably be proud of their contributions, both individually and collectively.

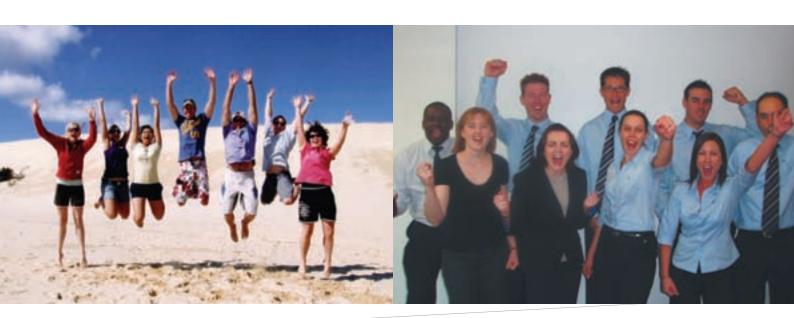
Thank you once again to you, the valued shareholders, for your ongoing support of the company.

Chairman's Review by Bruce Brown continued

Strategic Update

At the start of 2006/07, FLT targeted six areas to improve its performance and to generate improved returns for shareholders. Updates on the company's progress in addressing these areas are included in the table below.

| AREA | 2006/07 PROGRESS |
|------------------------|--|
| TTV Growth | 9% increase in business units and 10% increase in selling staff delivered 14% TTV growth 17 franchises opened in first year Acquired Nationwide Currency Services, 26% holding in Boston-based Garber Travel Services, wholesaler the Travel Spirit Group and Toni Brasch Event Management |
| Gross Margins | Increased income margin during 2006/07 – still adversely affected by airlines' use of zero-margin surcharges |
| Online and IT platform | Enhanced international (Trans Tasman) booking functionality on flightcentre.com.au flightcentre.com.au Australia's No. 1 travel agency site by visits for third consecutive year (Source: Hitwise) Overall retail technology platform enhanced |
| People | Continued focus on development and attracting and retaining the right people, with reduced staff turnover Expansion in flexible workplace arrangements – increased from 6% of total roles to 12%. FLT runner-up (large company category) at Hewitt Associates' annual Best Employer award |
| Costs | Overall expenses increased in line with TTV growth, although salaries and wages increased faster Rents under pressure in some monopoly shopping centres |
| Customer Experience | Shop of the future design now in all countries for Flight Centre and Escape Travel brands New "Unbeatable" and "Perfect Holiday" marketing programs for Flight Centre and Escape Travel |



2007/2008 Outlook by Graham Turner



While it is difficult to anticipate outcomes for 2007/08 at this early stage, Flight Centre Limited (FLT) is building on solid foundations and expects to improve on its achievements of 2006/07.

Reasonable contracts are in place with major suppliers, creating an opportunity to earn a combination of upfront commission and over-ride earnings if we achieve our desired level of sales growth and if fuel surcharges do not increase. Increased competition and capacity out of Australia also creates an opportunity for our company to work closely with its airline partners to demonstrate the strength and value of its shop and online distribution networks.

To improve overall performance, FLT will continue to focus on the key issues of TTV growth, margins, online development, cost reduction, people and improving the customer experience as outlined on the accompanying table.

Some progress has already been made in 2007/08 with the company:

- Increasing its capital expenditure budget to between \$50million and \$55million to fast-track the shop of the future design's roll-out and to allow for the completion of various projects that will enhance the company's overall IT platform, including an airfares database, wholesale booking platform and online booking engine.
- Expanding into the United Arab Emirates in July 2007 with the opening of an FCm Travel Solutions office in Dubai
- Making a small but strategic investment in the Indian leisure travel market by leasing two shops in Delhi for opening during the first half of 2007/08
- Bringing the UK leisure and corporate travel businesses together under one leadership team headed by Chris Galanty
- Implementing a global property acquisition strategy to improve longer term profits, following the success of the company's Brisbane CBD property sale and leaseback deal.

The property acquisition strategy has seen the company acquire a commercial property in Auckland CBD for \$NZ12million and initiate searches for other suitable properties in Australia and overseas. FLT expects to use a mix of leverage and existing company cash reserves to fund these future property acquisitions.

Based on the momentum gained during 2006/07 and a good first month's trading in 2007/08, FLT will target 10-15% growth in total transaction value and bottom line profit growth in line with this TTV growth for the 12 months to June 30 2008.

Frequently Asked Questions

What is FLT's strategy in relation to acquisitions?

FLT will seek to strengthen its sales network and its overall customer offering by pursuing strategic acquisition opportunities in Australia and overseas in 2007/08.

While acquired businesses will typically be small, profitable companies with niche products or services, FLT will consider larger opportunities that enhance its overall operations and give the company scale in some overseas operations.

How will FLT's Board be structured?

FLT initiated a search for two independent directors to succeed chairman Bruce Brown and director Howard Stack, who signalled their intentions to resign after suitable successors were appointed. The company has also announced plans to appoint another independent director within the next year, subject to the business's requirements. Two prospective independent directors, Peter Morahan and Gary Smith, have been nominated for Board positions and will seek shareholder approval at FLT's annual general meeting on November 1. The company and its people thank Mr Brown and Mr Stack for their stewardship and dedication during their terms.

Will FLT's approach to capital management change?

FLT expects to maintain a conservative approach to managing client funds. Retained company cash and funds likely to be generated during 2007/08 will be directing towards funding FLT's capital expenditure, acquisition, dividend, tax and working capital requirements.

What impact will growth in corporate travel have on FLT's cash flow patterns?

Future cash flow patterns will be affected by the ongoing shift in FLT's overall business mix. Debtors are likely to increase with the expansion in global corporate travel, which is predominantly conducted on account.

Is there likely to be any change in the company's ownership structure in 2007/08, following the events of 2006/07?

While the company expects to introduce some debt into the business, principally to fund future acquisitions, there are no plans to enter into a joint venture or privatisation agreement with a private equity partner in the foreseeable future. The company's founders have reaffirmed their intention to retain control of FLT.

2007/2008 Outlook by Graham Turner continued

Flight Centre Limited has identified six key issues for the year.

Strategies that are in place to address these issues and drive future growth are outlined below.

| ISSUE | 2007/08 STRATEGY |
|---------------------------|---|
| TTV growth | Develop and deploy a volume sales growth system to deliver leisure, corporate and wholesale expansion in all geographies. Key factors Shops and business growth (organic, acquisitions, franchises) Sales staff growth Business leads/enquiry growth |
| Gross margin | Identify, develop and deploy innovative preferred and alternative sources of revenue to deliver margin improvement in all areas Key factors Long-term supplier relationships and contracts offering a mix of upfront and over-ride margin Continued focus on land sales Enhanced selling environment — shop of future roll-out |
| Online and IT platform | Incrementally develop and deploy processes aided by technology solutions that improve productivity Key factors Increased capital expenditure in 2007/08 with various projects set for completion including internet booking engine, website redesign, fares database, wholesale booking platform Websites to be developed as an extension of the shop experience – serving as a marketing and information tool for customers who want great value land and air travel and person-to-person service, plus highly specialised travel segments, plus the ability to perform simple transactions |
| People | Attract and retain staff by making FLT the best place to work in all geographies through leadership, philosophies, culture, training and brightness of future Key factors People For Success surveys and action plans Employee benefits package Leadership development and succession planning Leadership recruitment and selection |
| Costs | Develop a system to reduce costs across all businesses Key factors Reduction in back office overheads Process and system change Salaries and wages as a percentage of commission |
| Customer experience | Design an innovative and improved customer system Key factors Customer feedback Increased product offerings Increased consultant product, service and destination experience |

International Review

Australia

Executive General Manager: Sue Garrett

Business Units:

845 leisure and corporate outlets, 43 wholesale/complementary

TTV: \$5.5billion, up 12.5%

Performance Review:

The company performed strongly in Queensland, Victoria-Tasmania and Western Australia-South Australia-Northern Territory. The overall NSW business and the corporate travel operation, while continuing to generate healthy profit, generally performed below expectations.

Outlook: Seeking improved corporate performance through increased sales and leisure travel improvement through broader product range and increased focus on customer experience. With a revamped leadership team in place in NSW, expectations are high.

New Zealand

Executive General Manager: Rick Hamilton

Business Units:

146 leisure and corporate outlets,11 wholesale/complementary

TTV: \$677.8million, up 3%

Performance Review:

While overall profit results were disappointing, signs of improvement were evident in the leisure business late in the year as initiatives implemented by the new leadership team gained momentum.

Outlook: Improvement in New Zealand as the business's leadership team enters its second year.

South Africa

Executive General Manager: Dayle White

Business Units:

116 leisure and corporate outlets, 7 wholesale/complementary

TTV: \$414.4million, up 3%

Performance Review:

The leisure and corporate travel businesses again performed strongly and recorded healthy profit growth. In local currency, TTV growth surpassed 20%.

Outlook: Ongoing profit growth in South Africa with strong brands in a strong economy, a stable leadership team and healthy margins.

United Kingdom

Executive General Manager:

Chris Galanty

Business Units:

160 leisure and corporate outlets, 3 wholesale/complementary

TTV: \$1.2billion, up 20%

Performance Review:

The leisure travel business achieved improved results, while the FCm (Britannic) business again generated solid profits.

Outlook: Improved performance in the UK leisure business, which has now grown to more than 100 shops, and growth in the corporate SME market in particular.

Worldwide Top Performers

Robyn Blacklock Hall of Fame Lin Hilditch Hall of Fame **Grania Fingleton** Hall of Fame **Richard Waddington**Top Corporate Account Manager









North America

Executive General Manager: Greg Dixon

Business Units:

212 leisure and corporate outlets, 6 wholesale/complementary

TTV: \$821.5million, up 40%

Performance Review:

The FCm businesses — including recent acquisitions Bannockburn and Garber — continued to perform well. The leisure businesses in both Canada and the USA recorded significant losses but generated healthy TTV and contributed to North America's overall growth by serving as a training ground for future corporate travel account managers.

Outlook: Profit in North America through continued corporate travel growth and a reduction in leisure travel losses, with a renewed emphasis on personal service and product and away from low margin business that is typically conducted online.

India

Executive General Manager: Rahul Nath

Business Units:

18 corporate locations

TTV: \$320million, up 13.5%

Performance Review:

The business continued to perform strongly.

Outlook: Continued growth in India, predominantly in the FCm business. The launch of a leisure travel business is seen as a small and strategic investment for the future.

China-Hong Kong

Executive General Manager: David Fraser

Business Units:

21 corporate outlets

TTV: \$82.2million, up 52%

Performance Review:

Continued TTV growth but ongoing losses in the FCm businesses in both Hong Kong and China.

Outlook: Improved performance in Greater China (Hong Kong and China) with a view to generating a modest profit in this emerging market within two years.



Allison Veit
Top Ticket Centre Consultant



Dayle White and Mike Friend Directors' Awards









Operational Review

Finance

Flight Centre Limited continues to develop its finance area, with the primary aim to employ, retain and develop high calibre professionals to deliver quality information and advice to staff to improve earnings and minimise costs.

During 2006/07, the company continued to invest in and upgrade its key financial systems and applications to secure additional productivity gains. This investment will continue into 2007/08, when a key initiative will see FLT introduce an automated client bank reconciliation system to enhance shop finance teams' productivity.

Key improvements during 2006/07 included:

- Greater stability and response times in the Australian finance systems stemming from an investment in new hardware in key areas
- The introduction of an upgraded payroll system with greater functionality
- Reduced administrative requirements after processes relating to the company's CORE database were streamlined
- Implementation of a new transactional banking partner in Australia

In addition, the Australian-based Treasury team again generated solid returns in interest and investment income, while adhering to investment guidelines set by Flight Centre Limited's Board. During 2006/07, average funds under management in Australia increased from \$233million to \$306million.FLT maintained its weighted average credit quality of "AA - / A+" credit rating on its investment portfolio.

Franchise and Compliance

In its first full year, Flight Centre Limited's franchise operation enjoyed great success, with 17 Escape Travel franchises opened by June 30, 2007. Growth has continued in 2007/08 with five additional franchises joining the group this year.

The franchised businesses have given FLT access to a broader customer base in Australia and contributed to the company's healthy TTV growth in 2006/07. Pleasingly, one of these franchises also received industry recognition for its achievements, with Escape Travel Townsville, part of the Debbie Giudes Group, winning the Best Travel Agency Corporate – Regional award at the National Travel Industry Awards for Excellence.

In the Compliance area, key achievements included reviews of all senior executives' remuneration and of the company's human resources policies.

Marketing and Customer Relations

Flight Centre Limited's brands are core assets and are consistently presented to customers in all advertising and marketing initiatives to improve brand recognition and awareness. This approach has helped make the flagship Flight Centre leisure brand one of Australia's most valuable names, with a brand value estimated at \$320million in 2004 (Source: Interbrand).

The company's marketing activities are geared towards developing the range of leisure and corporate brands to cater for specific customer segments.

In the leisure sector, marketing teams focused on increasing enquiry, decreasing the cost of enquiry and increasing the rate of repeat patronage to deliver a cost effective service to the shops. Teams also played a key role in launching Flight Centre brand's high profile new "unbeatable" positioning and developing Escape Travel's new "Perfect Holiday Promise".

Other significant developments included:

- Consistently strong traffic on the company's leisure websites, with flightcentre.com.au attracting some 18million visitors and again being judged Australia's number one travel agency site by visits (Source: Hitwise)
- Significant expansion of the company's Australian customer database, which now has more than 1.4million members
- Distribution of more than 60million travel newsletters and special alerts during the year, via the company's direct marketing teams
- Continued strong response to the nationwide Discover Europe shows and Travel Expos
- The ongoing rollout of the shop of the future design internationally and Travel Money outlets in Australia
- · The development of a green ticket option for customers

In corporate, priorities included expanding FCm Travel Solutions' customer base and cost effectively generating leads for the network's business development managers.

The corporate marketing team was also instrumental in:

- Introducing a quarterly, branded Trans Tasman hard cover magazine and monthly e-zine for customers
- Launching concentrated direct marketing and press campaigns which delivered outstanding results
- Installing the Salesforce database and relationship management technology
- Launching an integrated sales kit detailing services available to customers

PeopleWorks

The PeopleWorks businesses recruit and present prospective consultants and other professionals to the company's managers and, later, train and develop staff.

Businesses that operate in this important area include:

- Recruitment
- · The Learning Centre
- The Leadership Centre
- Healthwise
- Moneywise
- The William James School of Business

During 2006/07, PeopleWorks continued to develop the Our People program. This program focuses on five key areas – career support, health and lifestyle balance, personal finance, reward and recognition and travel benefits – and ensures that staff members are aware of the facilities, support and opportunities available to them as they further their Flight Centre Limited careers.

Operational Review continued

Thanks partly to the success of this program, FLT was recognised in numerous Best Employer awards in Australia and overseas as outlined below:

- New Zealand Best Large Company and Best Place to Work
- Canada Top 50 employer and a Top 30 company for staff benefits
- Australia runner-up in the large company category at Hewitt Associates' Best Employer awards
- South Africa first in the travel, tourism and leisure category at Best Company to Work For and sixth overall
- UK represented on the Sunday Times One Hundred Best Companies to Work For and the Guardian Top Employers 2007

Other key achievements during 2006/07 included:

- The recruitment and training of new retail, corporate and wholesale sales staff as the company's selling staff numbers increased 10%
- Senior executives completing the first assessment and leadership development program as part of the William James School of Business.
- The business school graduated the third group since its inception and employee enrolments increased 20% on the previous year
- A significant increase in flexible workplace arrangements jobshare, part-time and work-from-home opportunities increased from 6% of total roles to 12%

In the year ahead, the PeopleWorks businesses will play a key role in attracting suitable sales staff to support the company's growth plans, particularly in corporate travel. The businesses will also focus on providing assistance to the start-up retail operation in India, enhancing recruitment and training systems in China, rolling out a new in-store based training system and launching a global careers and job exchange program.

Property and Procurement

Flight Centre Limited's Property division was at the heart of a number of important initiatives that produced tangible benefits for the company and its individual businesses.

Property was a key driver in the roll-out of the shop of the future (SOF) design to more than 120 stores, the development of the Flight Centre Travel Money (foreign exchange booths) concept for standalone shops and Flight Centre brand implants and in the launch of a store "refresh" concept. Refresh incorporates key elements of the SOF, without requiring a complete store refit, and will be rolled out to all Flight Centre brand shops during the next two years.

The Property division has now been restructured so that more building projects can be undertaken in 2007/08. Key changes have included the creation of a shop building panel of contractors and specifically tendering seven elements of the shop building process. Significant value is expected from the panel and tender processes.

Property's leasing teams focused on reducing the effects of rent increases and enjoyed considerable success in delivering savings to shops.

In the year ahead, FLT's property area will play a key role in executing the company's new property acquisition strategy. This strategy was initiated following the successful sale of the Adelaide Street (Brisbane) property and has seen the company develop a replicable business model built around acquiring properties in Australia and overseas, adding value and then selling for profit.

An associated team will also oversee the rollout of a retail travel operation in India in 2007/08. Two shops are set to open in late October in a mall and business park in Delhi.

Flight Centre Limited's Procurement area continued to evolve during 2006/07 and delivered further savings to the business, while managing a total spend of \$160million.

Projects that are currently underway include marketing, property, facilities management, car leasing and recruitment reviews. Procurement is also taking a more active role globally and is now represented in many countries FLT operates in.

Technology and Projects

Technology is a core component of Flight Centre Limited's businesses throughout the world. Accessing the right information, sharing information and enhancing productivity are essential factors in reaching the company's growth and profit objectives.

Flight Centre Limited's information technology company, Flight Centre Technology Pty Ltd, aims to provide cost effective and efficient services to its customers and to help the company achieve its overall aims.

The business also incorporates Flight Centre Limited's Project Services team, the group charged with overseeing and implementing business improvement initiatives.

During 2006/07, the IT and project teams worked on and delivered a number of business improvement initiatives, including:

- Migrating the Australian business to new communications and banking service providers
- · The introduction of a new Outlook email system
- Enhancing the company's websites through the introduction of Trans
 Tasman booking capabilities on Flight Centre's Australian and New
 Zealand sites and an expanded 365-days-a-year product range on
 quickbeds.com
- The introduction of the Calypso global wholesale platform, via a pilot scheme involving selected Infinity Holidays teams

In the year ahead, initiatives will include:

- A new airfares database with enhanced functionality for Australia, New Zealand and South Africa
- Upgrades of the company's leisure and accommodation websites
- The global wholesale platform's rollout in Australia and New Zealand
- The introduction of a Central Server, which will allow for centrally managed data and applications with improved functionality, access to programs and increased protection from viruses, in addition to providing a better foundation for future store growth

Flagship Brands

Leisure

Flight Centre

The flagship Flight Centre brand is Flight Centre Limited's best-known travel business and is regarded as one of Australia's most valuable brand names.

Flight Centre's branding and design are consistent worldwide, with its famous captain and network of red and white shops enhancing brand awareness and recognition. This consistency makes Flight Centre shops immediately recognisable to customers, wherever they are in the world.

During 2006/07, Flight Centre brand unveiled a new logo, slogan and price promise, following the introduction of the innovative new shop of the future design during 2005/06. This new marketing campaign is part of the company's strategy of improving the overall customer experience and focussing on the travel consultants' expertise.

Flight Centre's Unbeatable value proposition highlights the passion, experience and value Flight Centre's consultants offer customers. The proposition is reflected in a new advertising slogan 'We go out of our way for you', as well as a Low Price Promise.

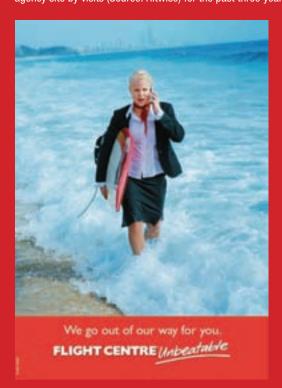
www.flightcentre.com

The flightcentre.com website is a key component of Flight Centre Limited's multi channel distribution network and:

- Supports the company's extensive shop network
- Generates enquiry and sales
- Provide customers with easily accessible travel and product information

Visitors to this site can search, compare and book flights with major domestic and international carriers, as well as rooms at more than 20,000 hotels worldwide, travel insurance, rail passes and car hire.

flightcentre.com.au has been judged Australia's number one travel agency site by visits (Source: Hitwise) for the past three years.



Corporate

FCm Travel Solutions

FCm Travel Solutions is Flight Centre Limited's flagship corporate brand and the first Asia-Pacific based global corporate travel and expense management specialist.

The FCm Travel Solutions network extends throughout the three major corporate regions — Asia-Pacific, Europe-UK-Middle East and Africa (EMEA) and the Americas — and is growing rapidly through organic expansion, strategic acquisitions and licensing agreements with leading local companies in key international markets.

Network members are selected according to synergies in culture, commitment to service excellence and focus on achieving true efficiencies for clients. These members are local industry leaders who are able to offer clients the benefits of:

- Local market knowledge
- FCm Travel Solutions' 24/7 global support network
- A flexible business model that creates tailored solutions for every client.

FCm Travel Solutions' key point of difference is its people and culture, as reflected in its positioning statement "Our People. Your Guarantee". FCm Travel Solutions' account managers continuously monitor how their clients travel, identify efficiencies and proactively create solutions that make travel less complex and more cost effective.

Differentiating its service with a more localised, flexible and intensely personal approach, FCm Travel Solutions continued to build on its success in the traditional SME market during 2006/07, in addition to competing against the world's largest travel management companies to secure a number of major regional accounts.

FCm Travel Solutions' global profile was also boosted through its sponsorship of the world's peak industry body, ACTE (Association of Corporate Travel Executives) and NBTA (National Business Travel Association) providing valuable exposure at prominent industry forums around the world.

During 2006/07, the network's third full year, FCm continued to expand internationally.

Through Flight Centre Limited's acquisition of a 26% holding in Boston-based Garber Travel Services Inc, FCm Travel Solutions secured a solid east coast presence in the United States to complement the existing businesses in Chicago and Los Angeles.

Following significant growth in licensees during 2005/06, further international expansion took place in 2006/07 with the network welcoming new partners in a number of key locations including Switzerland, Austria, Mexico and Venezuela.

Since the start of 2007/08, FCm Travel Solutions has announced plans to establish a company-owned presence in another key corporate market, the United Arab Emirates.

www.fcm.travel

Leisure Brands

Cruiseabout

Cruiseabout is one of Australia's largest specialist cruise agencies and operates as a retail business, offering cruise product to the public, and as a wholesaler to Flight Centre Limited's retail shops. The brand has won a string of industry honours and is recognised in the travel industry as one of the leaders of electronic marketing through its website and electronic email database.

Escape Travel

Escape Travel is Flight Centre Limited's second largest leisure brand. The brand targets middle-market consumers and specialises in tailoring complete and affordable international and domestic holiday packages.

Shops are predominantly located in major shopping centres along Australia's east coast and have a distinctive blue, white and red signage scheme. Customers can expect a professional and friendly service and a diverse product range, backed by Escape Travel's "Perfect Holiday Promise".

Escape Travel is currently the only Flight Centre Limited business that offers experienced travel agents – both from within the company and externally – the opportunity to acquire a franchise shop. During 2006/07, the franchise operation's first year, 17 new franchises became part of the Flight Centre Limited group. Further expansion, through a combination of franchises and company-owned shops, is planned for 2007/08.

www.escapetravel.com.au

escapetravel.com.au receives more than 250,000 visitors per month and consistently ranks among Australia's10 most popular travel agency websites. The site hosts a range of more than 500 products, as well as a domestic flight and accommodation booking engine. escapetravel.com. au also has a dedicated cruise section, which allows customers to search and enquire on more than 100 international cruises.

Student Flights

Student Flights is Flight Centre Limited's youth and adventure travel specialist.

The brand specialises in domestic and international airfares (with specific student deals), accommodation (hostels and hotels), car hire, rail passes, bus and touring options. As a targeted and niche youth and adventure brand, Student Flights boasts an exciting and diverse product range that includes tours and activities, music festivals, events, sailing and contemporary cruising, overseas working holidays, teaching opportunities and volunteering programs.

Student Flights also offers visa support, ISE student cards, travel insurance and the opportunity for travellers to offset their flight-related carbon emissions.

The brand now has more than 50 shops in Brisbane, Sydney, Melbourne, Gold Coast (including Bond University), Canberra, Perth, Geelong and Cairns. These shops are located in High Street positions, near major universities and TAFE campuses, shopping centres, transport hubs and in high foot traffic locations.

Student Flights' target audience consists of Generation X and Y (predominantly aged between 18 and 30 years) in both the inbound and outbound markets for students, independent travellers (backpackers and flashpackers), young professionals, trades people, overseas working holiday makers and adventure seekers.

www.studentflights.com.au

The Student Flights website has a strong affinity with its primary target market, given the group's high propensity for internet usage, and highlights the latest international and domestic airlines (including student airfares), campaign products, cheap travel, an extensive range of tailored product, events and music festival listings, last-minute deals and competitions. studentflights.com.au consistently appears in the top 15 travel websites and typically attracts more than 250,000 unique user sessions per month. The brand's strategy integrates the online positioning with direct retailing to successfully target the youth and adventure market.

The Travel Associates businesses

The respective Travel Associates businesses are designed to cater for experienced travellers with discerning tastes, keen interests in exploring unique destinations and a desire for luxury leisure travel experiences.

The boutique-style offices are located in fashionable shopping and eatery locations in Brisbane, Sydney, Melbourne, Hobart, Canberra, the Gold Coast, Sunshine Coast and Toowoomba. New offices are planned for Sydney, Adelaide and Perth this year, with the 20th business expected to open during the first half of 2007/08. In addition, the brand is set to expand internationally with businesses planned for South Africa during the year ahead.

As Travel Associates clients' are well travelled, team leaders hold a wealth of knowledge and personal experience. Similarly, team members are highly experienced professionals with the ability to tailor holidays to suit customers' needs.

Future plans include the trial of mobile travel consultants in regional areas. This involves consultants travelling to meet clients off-site and aims to satisfy customers who cannot visit office locations. www.travel-associates.com.au



Corporate Brands

CiEvents

After a year of business consolidation during 2005/2006, 2006/07 was a period of managed growth for the CiEvents brand, with ongoing development of the United Kingdom business and seeds sewn for a new opportunity in the emerging Chinese market.

In Australia, CiEvents built on its core business by acquiring Toni Brasch Event Management to bolster its production capabilities. Positioning this production arm under the FatFish brand, CiEvents is now ready to compete for pure production business, in addition to and in conjunction with its core operations.

During 2006/2007, CiEvents has further consolidated its position as Australasia's leading corporate event and conference planning, production and project event management company. Its strong suite of customer business solutions now include:

- CiEvents: the business's main operational and logistics arm, specialising in all budgeting requirements as well as the timely, on-site running of projects, including online registration, air travel arrangements and all ground arrangements both in Australia and overseas;
- FatFish Production: established to better integrate strategic business communication expertise with theatrical know-how to serve clients in a range of fields, from product launches, special dinners, to press launches and award evenings;
- CiLoyalty: a relationship marketing division to help businesses achieve their management and marketing objectives through performance improvement by way of customised incentive marketing, relationship marketing, reward and recognition and customer loyalty programs;
- FatFish Design: innovation across all aspects of graphic design, internet development, video production and photography, from production through to final printed product.

Now with offices in Sydney, Melbourne, Brisbane, Auckland, London and Shanghai, CiEvents is rapidly establishing itself as an industry leader globally as well as locally.

www.cievents.com.au

KistendCampus Travel

KistendCampus Travel is the only specialist travel management company in Australia to focus solely on travel solutions delivery to the academic sector.

The business recognises that universities, schools, TAFEs and other colleges have increasingly complex infrastructures akin to those of many large corporations and, accordingly, tailors academic travel solutions which bring the world closer.

From its network of onsite locations or by closely aligning itself with its customer bases, KistendCampus is uniquely positioned to respond and adapt to the variety of travel needs thrown up by the academic sector.

KistendCampus customers also benefit from the business's intensely personal service, attitude and approach on an immediate local level. This is underpinned by a global reach through parent company Flight Centre Limited that provides customers with the same high standard of service internationally, whichever country they are travelling to.

www.kistendcampus.com.au

Stage and Screen Travel Services

Stage and Screen Travel Services provides specialist travel services for the entertainment, music, film, sports, arts and media businesses. The brand enjoyed continued success during 2006/07 and played a key role in a number of major events and productions, including Australian Idol, Dancing With The Stars, McLeod's Daughters and the Australian tours of U2, Pink and the Red Hot Chilli Peppers.

Stage and Screen operates in Brisbane, Sydney, Melbourne and Auckland and will enter the United States market during 2007/08 with the opening of a Los Angeles office.

www.stageandscreen.com.au



Wholesale and Complementary Brands

Ticket Centre

Flight Centre Limited's in-house ticketer, Ticket Centre, is a vital part of the organisation in every country and has been recognised as the largest business of its kind in Australia.

Ticket Centre performs the important function of formatting, issuing and managing all of Flight Centre Limited's ticketing requirements, adding to the company's overall professionalism and delivering a fast and accurate product to the shops.

The Ticket Centre team is dedicated to providing efficient solutions for front-end partners at each stage of air product distribution and delivering fares knowledge, advice, ticket fulfillment and post ticketing assistance.

The business encompasses three important areas:

- Farepoint providing airfare and ticketing advice to the company's sales people
- Ticketing operations associated with physically issuing tickets
- Accounts overseeing refund and billing issues

During 2006/07, Ticket Centre has moved to a ticketing fee for service model, rolled out new technology for great efficiency and productivity and has improved quality control and accuracy of ticket production.

Flight Centre Travel Money

Flight Centre Travel Money is a new addition to Flight Centre Limited, following the acquisition of Nationwide Currency Services in October 2006.

The business, which was established in Perth in 1997, has been rebranded since acquisition and has been earmarked for significant expansion in the future. While the company will continue to grow the Flight Centre Travel Money brand by opening standalone outlets, expansion will be fast-tracked by incorporating the currency service into existing Flight Centre stores in various locations, initially in Australia and elsewhere in the world in the longer term.

Flight Centre Travel Money's products and services will include:

- Foreign Cash and Traveller's Cheques
- MoneyGram International Money Transfers
- Flight Centre Travel Money Cards

Overseas Working Holidays

Overseas Working Holidays (OWH) is a niche brand that specialises in the growing working, volunteering, teaching and learning holiday market.

From its offices in Australia, OWH offers a range of volunteer, youth and adventure travel and paid employment opportunities in more than 80 countries, including its core Work in Canada, UK and Teach English Worldwide programs. OWH also wholesales various youth travel products to Flight Centre Limited, from Hop-on Hop-off bus passes in South Africa, Turkey and Canada to cheap tours in Eastern Europe and Egypt.

New programs introduced in the past year included:

- Camp Counselors USA
- Camp Counselors UK
- Camp Counselors Russia
- Work Visa Packs in the UK and Ireland

The next financial year will see a significant shift in the business with the creation of "Infinity Youth", the specialist wholesale division of Infinity that will work with Student Flights to offer programs and travel products that are specifically tailored towards the Student Flights market. In addition, OWH will continuing to retail direct to the public.

www.owh.com.au

Infinity Holidays

Infinity Holidays is Flight Centre Limited's largest wholesale business and supplies accommodation, tours, cruises and car hire to the company's international shop network.

While Flight Centre Limited continues to work with a number of preferred suppliers, Infinity is now the company's largest supplier of land products and continues to grow in all countries of operation.

During 2006/07, Infinity recorded strong growth in margins and profit. In Australia, the business was also recognised as the country's best domestic travel wholesaler in the National Travel Industry Awards.

The company's overall wholesale operation was also expanded in March 2007, following Flight Centre Limited's acquisition of the Travel Spirit Group, a business that encompasses the Explore, Venture and African Traveller brands.

Explore Holidays specialises in holidays for independent travellers, particularly those embarking on long haul adventures. Products include airfares, hotels, tours, sightseeing, special interest activities and car hire.

African Traveller is a specialist division of Explore Holidays and offers an extensive range of safari options. The brand's dedicated staff members have travelled extensively and boast extensive knowledge and passion for

Venture Holidays provides quality, individualised and tailor-made holidays to North America, Bali, Britain, Europe, Hong Kong, China, Macau, Hawaii, Malaysia, Borneo, Thailand, Singapore, Vietnam and Cambodia.

In addition to these brands, the acquisition will give Flight Centre Limited the ability to expand its wholesale contracting and distribution globally as one combined entity and using one platform. This will help FLT grow its wholesaling and land-selling business and maximise the synergies of combined global buying.

Accommodation Websites

quickbeds.com.au

Flight Centre Limited acquired quickbeds.com in 2002 and has continued to develop the site's capabilities and international and domestic product range.

quickbeds.com provides last-minute specials – which are up to 70% cheaper than standard prices for domestic properties – up to 28 days in advance directly on the website or via a dedicated Hotel Hotline call centre.

The website also offers access to year-round rates, allowing customers to book during peak periods when last-minute rates are unlikely to be available.

quickbeds.com adopts a Price Beat Guarantee to help its customers secure additional bargains at hotels, apartments, bed and breakfasts, hostels, resorts and motels throughout Australia. This guarantee means that the quickbeds.com team will beat any available accommodation price offered by competing Australian registered businesses and websites.

During 2006/07, quickbeds.com made Travel Insurance (Covermore) available on the website and added a range of activities and tours (Godo) for customers who are sourcing ideas for travel.

flightcentrehotels.com.au

flightcentrehotels.com.au is a dedicated accommodation business that is linked to the flightcentre.com.au website.

Similar to quickbeds.com, flightcentrehotels.com offers customers accommodation specials at thousands of resorts and hotels in Australia and overseas

Deals include last-minute specials for leisure or business customers travelling within the next 28 days and year-round rates for customers booking up to 365 days in advance.

All products on the site are also available at Flight Centre Limited's leisure travel shops to cater for customers who prefer to book their accommodation in person.

Corporate Governance

1. Lay solid foundations for management and oversight

The Board acknowledges that its primary role is to create and safeguard shareholder value.

The Board's functions include:

- Charting the group's direction, strategies and financial objectives
- Overseeing and monitoring organisational performance
- Identifying risks and implementing appropriate control, monitoring and reporting mechanisms
- Appointment, performance assessment and, where appropriate, removal of the Chief Executive Officer, Chief Financial Officer and Company Secretary
- Ensuring the Board structure and composition is effective
- Approving and monitoring the progress of major capital expenditure, acquisitions and capital management

All significant matters are dealt with by the full Board. To assist in its deliberations, the Board has established a number of committees that act primarily in a review or advisory capacity.

2. Structure the Board to add value

The Board has a complementary mix of skills that provide the desired depth and experience. Currently, there are three non-executive Directors (including the Chairman) and one executive Director.

The Managing Director is a Board member but does not hold the position of Chairman.

The Board meets monthly and on an ad hoc basis to consider time critical matters.

Directors may seek legal advice, at the company's expense, on any matter relating to the group, subject to prior notification to the Chairman.

Board Composition

The Directors' names and biographical details are provided in the annual report.

Nominations Committee

Due to the small size of the Flight Centre Limited Board, the full Board is considered a more effective and appropriate mechanism to deliberate selection, appointment and performance matters.





Independence and Materiality

An independent Director is independent of management and free of any business or other relationship that could materially interfere with the exercise of the Director's unfettered and independent judgment.

Materiality is assessed on a case-by-case basis from the perspective of both the Company and the Director concerned.

The Board believes the current non-executive Directors qualify as independent.

3. Promote Ethical & Responsible Decision Making

Flight Centre actively promotes a set of values designed to assist all employees in their dealings with each other, competitors, customers and the community. The values endorsed include: honesty, integrity, fairness and respect. These values are incorporated into the company core philosophies. Flight Centre Limited's philosophies are considered the equivalent of a Code of Conduct as they set out the standards expected of all employees.

Company Philosophies

The company philosophies are included in the annual report.

Political Contributions

Flight Centre Limited maintains a position of impartiality with respect to party politics and, accordingly, does not contribute any funds in this regard.

Trading Policy

The Board has established guidelines governing the purchase or sale of securities in the company by Directors, employees and contractors who may be in possession of price sensitive information. The Board has resolved to confine any dealings in the company's shares to a period of 30 days following the public release of the company's financial results. Notwithstanding, should new price sensitive information emerge during this period, Directors, employees and contractors are not permitted to trade in the company's shares until the information has been publicly released.

For further details, refer to the policy at www.flightcentre.com

4. Safeguard Integrity of Financial Reporting

Audit Committee

Audit committee functions include:

- Recommending the external auditor's appointment/removal, reviewing the auditor's performance and audit scope
- Helping the Board oversee the risk management framework, including determining the internal audit's scope, ratifying the Chief Internal Auditor's appointment/removal and contributing to the Chief Internal Auditor's performance assessment
- · Reviewing the company's published financial results
- Reporting to the Board on matters relevant to the committee's role and responsibilities

Committee Composition

The Audit Committee includes three independent Directors, Peter Barrow (Committee Chairman), Bruce Brown and Howard Stack, who report to the full Board and have extensive experience and expertise in accountancy, financial management, risk management, legal compliance

and corporate finance. Details of the Directors' qualifications and attendance are set out in the annual report.

The Board has reviewed the Committee's membership and is satisfied that, given the size of Flight Centre Limited's Board, the Committee has appropriate financial representation. The Chairman of the Audit Committee is not Chairman of the Board of Directors.

Refer to www.flightcentre.com for Audit Committee charter

Auditor Appointment

The company and Audit Committee policy is to appoint an external auditor that clearly demonstrates quality and independence. The external auditor's performance is reviewed annually. PricewaterhouseCoopers (PwC), the current auditor, is obliged to rotate audit engagement partners at least every five years. The group has moved to have PwC appointed in each jurisdiction it operates in.

An analysis of fees paid to the external auditor, including fees for nonaudit services, is provided in the annual report. The external auditor's policy is to provide the Audit Committee with an annual declaration of independence.

Certification of Financial Reports

The Chief Executive Officer and Chief Financial Officer certify that the company's accounts are a true and fair representation of the company's financial results and position.

5. Make Timely and Balanced Disclosure

As per ASX Listing Rules, Flight Centre Limited will immediately publicly disclose any information that a reasonable person will expect to have a material effect on the value of its shares.

The company has written policies and procedures governing continuous disclosure and shareholder communication.

All information communicated to the Australian Stock Exchange (ASX) is to be posted on the company website.

In line with recent legislation changes in Australia, Flight Centre Limited has adopted a preferred policy of distributing the company's annual and half yearly reports electronically wherever possible. Shareholders can, however, request hard copy versions of these documents.

Refer to www.flightcentre.com for the Communications and Disclosure Policy

6. Respect Rights of Shareholders

Shareholder Communications

The Board aims to inform shareholders of all major developments affecting the group's activities and its state of affairs through distribution of the annual report, Australian Securities Exchange announcements and media releases. All such communications are placed on the company website, www.flightcentre.com.

Auditor Communication

The external auditor is asked to attend the annual general meeting to answer shareholder questions concerning the conduct, preparation and content of the audit report.

Refer to www.flightcentre.com for the Communications and Disclosure Policy

Corporate Governance continued

7. Recognise and Manage Risk

Flight Centre Limited complies with the laws applicable in Australia and in the jurisdictions in which it operates.

The company is developing an integrated business risk management and compliance framework. This will provide the Board and management with an ongoing program to identify, evaluate, monitor and manage significant risks to enhance, over time, the value of shareholders' investments and to safeguard assets.

The Company Secretariat includes the Internal Audit and Legal divisions and oversees risk management and compliance matters. The Global Internal Audit division is responsible for ensuring the adoption of prudent financial and non-financial risk management measures.

Audit and business reports are provided to the Board.

The Managing Director and Chief Financial Officer have provided the Board with a formal sign-off regarding the soundness of the risk management and internal controls.

Refer to www.flightcentre.com for the Internal Audit Charter

Risk Profile

Factors representing general risks include:

- The general state of the Australian and international economies,
- Adverse currency and interest rate movements,
- The outlook of the tourism sector generally.
- Low barriers to entry and modest start-up costs

Factors which represent specific risks to Flight Centre include:

- · Adoption of the internet as a distribution channel
- Adverse changes in commission arrangements or rates payable to the group
- · The occurrence of significant international armed conflict
- A dramatic change in customer travel/leisure patterns and tastes
- · Loss of key staff and staff turnover
- Adverse changes in government regulation

Flight Centre and its Board continually assess emerging trends and associated risks and their possible impacts on future profits.

Strategies are in place to drive future growth and to mitigate against the affects of the various risk factors. The company's specific goals for 2007/08 are included in the annual report's outlook section.

8. Encourage enhanced performance

The Board evaluates its collective performance and considers various issues including; the quality of the Board's relationship with management, Board succession and complementary skill mixes, the Board's role, contribution and effectiveness.

The Board regularly evaluates management's performance against various criteria and requires senior management to formally address the Board on execution of strategy and associated issues.

All senior executives have "one-on-one" meetings with the Managing Director.The Board receives a monthly information pack including:

- Reports from respective Executive General Managers on financial and, operational issues;
- Divisional reports from National Leaders;
- · Corporate governance reports; and
- Consolidated and divisional accounts

The Board requests additional information as required.

Board members are entitled to seek independent advice once notification has been made to the Chairman.

The Company Secretary facilitates corporate governance and distributes agenda items and information papers. The Company Secretary is accountable to the Board through the Chairman.

9. Remunerate Fairly and Responsibly

Flight Centre Limited's fundamental remuneration policy is to link performance and accountability with reward.

The directors and the highest paid executives' remuneration details are outlined in the annual report.

The Board delegates responsibility for remuneration practises to the Remuneration Committee.

Remuneration Committee

The Remuneration Committee helps determine appropriate remuneration policies and consists of Flight Centre Limited's Managing Director, Chief Financial Officer, Company Secretary and HR Manager. The Board believes that, given its size, the existing committee satisfactorily addresses this function. The Board considers a remuneration charter is not necessary at this stage.

Equity Issuance

Executive remuneration consists of a retainer, a performance-based incentive and possible equity participation through the Employee Share Plan or Option Plan. Equity-based remuneration is issued in accordance with Corporations Act requirements.

Non-executives cannot participate in the Employee Share Plans and receive no additional retirement benefits other than the statutory requirements.

The Chairman is not involved in the approval of his own remuneration package.

The Remuneration Committee's attendance details are outlined in the annual report.

10. Recognise Other Legitimate Interest of Stakeholders

Flight Centre Limited's company philosophies are endorsed by the Board and apply to all directors and employees. The philosophies require all company personnel to act with integrity and are supported by numerous policies relating to legal and ethical compliance.

The company's philosophies can be viewed in the annual report.

The company recognises its corporate social responsibility and has committed to fulfilling this obligation by contributing to several charitable initiatives. To coordinate its efforts in this area, Flight Centre Limited has moved to create a charitable foundation. The company expects to launch this foundation during 2007/08.

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.

- 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'.



Directors' and Financial Report

for the year ending 30 June 2007



Contents

| Directors' Report Financial Report | 1 |
|--|----|
| Income statements | 15 |
| Balance sheets | 16 |
| Statements of changes in equity | 17 |
| Cash flow statements | 18 |
| Notes to the financial statements | 19 |
| Directors' declaration | 83 |
| Independent auditor's report to the members of Flight Centre Limited | 84 |
| Shareholder information | 86 |
| Corporate directory | 88 |

This financial 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:

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 full annual report

The financial report was authorised for issue by the directors on 31 August 2007. The company has the power to amend and reissue the financial report.

Flight Centre Limited ABN 25 003 377 188

Directors' Report

Your directors present their report on the consolidated entity (referred to hereafter as the group) consisting of Flight Centre Limited and the entities it controlled at the end of, or during, the year ended 30 June 2007.

Directors

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

B.R.Brown

G.F.Turner

P.F.Barrow

H.L.Stack

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

Principal activities

During the year, the group's principal continuing activities consisted of the selling of international and domestic travel. There were no significant changes in the nature of the group's activities during the year.

Dividends – Flight Centre Limited

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

| | 2007 \$'000 | 2006 \$'000 |
|---|----------------|----------------|
| Final ordinary dividend for the year ended 30 June 2006 of 32cents (2005 – 28cents) per fully paid share paid on 13 October 2006, fully franked | 30,231 | 26,497 |
| Interim ordinary dividend for the year ended 30 June 2007 of 20cents (2006 – 20cents) per fully paid share paid on 16 March 2007, fully franked | 18,894 | 18,894 |
| | 49,125 | 45,391 |

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 \$43,456,676 (46cents per fully paid share) to be paid on 12 October 2007 out of retained profits at 30 June 2007.

Review of operations and significant changes in the state of affairs

A review of the company and its controlled entities and the results of those operations for the year are contained in the Appendix 4E released 23 August 2007.

Matters subsequent to the end of the financial year

On 30 July 2007, Flight Centre (NZ) Limited entered into a contract to purchase 127 Vincent Street, Auckland, New Zealand for NZ \$12m.

Other than this matter noted above, no circumstance has arisen since 30 June 2007 that has significantly affected, or may significantly affect:

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

Likely developments and expected results of operations

Further information on likely developments in the group's operations 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 group has determined that no particular or significant environmental regulations apply to it.

Directors continued

Information on directors

| | | | Particulars of direc | |
|---|--|--|----------------------|---------|
| | | | Flight Centre | Limited |
| Director | Experience | Special responsibilities | Ordinary shares | Options |
| B.R.Brown BCom, AAUQ Age: 62 | Director of Transpacific Industries Group Ltd and Campbell Brothers Limited. Former managing director and chief executive officer of Campbell Brothers Limited from 1990 to 2005. | Chairman Member of audit committee | 5,000 | - |
| G.F.Turner BVSc Age: 58 | Founding director of Flight Centre Limited with significant experience in running retail travel businesses in Australia, New Zealand, USA, UK, South Africa and Canada. | Managing director Member of remuneration committee | 17,228,687 | - |
| P.F.Barrow FCA,FAICD Age: 56 | Director of Flight Centre Limited since 1995. Director of Oaks Hotels and Resorts Limited and Cluff resources Pacific NL. Senior partner of chartered accounting firm MBT. More than 25 years' experience with retail travel companies. | Independent non-executive director Chairman of audit committee | 72,085 | 10,000 |
| H.L.Stack BA, LLB Age: 62 | Director of Flight Centre Limited since 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 Member of audit committee | 42,288 | 10,000 |
| G.L.Harris Age: 56 | Founding director of Flight Centre Limited. More than 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 director | 16,260,493 | - |

Company secretary

The company secretary is Mr G.Pringle BA, LLB MBA (UQ), PG Dip IR. Mr Pringle is also 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 a former magistrate and barrister.

Meetings of directors

The numbers of meetings of the company's Board of directors and of each Board committee held during the year ended 30 June 2007 and the numbers of meetings attended by each director were:

| | | | | | Meetings of committees | | | |
|---------------------------------|----------|--------------------|-------|---|------------------------|---|--|--|
| | Full med | etings of ctors | Audit | | Remuneration | | | |
| | Α | В | Α | В | Α | В | | |
| G.F.Turner | 11 | 12 | * | * | 2 | 2 | | |
| P.F.Barrow | 11 | 12 | 3 | 3 | * | * | | |
| H.L.Stack | 11 | 12 | 3 | 3 | * | * | | |
| B.R.Brown | 12 | 12 | 3 | 3 | * | * | | |
| G.L.Harris (Alternate director) | 1 | 12 | * | * | * | * | | |

- 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

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation
- E Additional information.

The information provided under headings A-D includes remuneration disclosures that are required under Accounting Standard AASB 124 Related Party Disclosures. These disclosures have been transferred from the financial report and have been audited. The disclosures in Section E are additional disclosures required by the Corporations Act 2001 and the Corporations Regulations 2001 and have not been audited.

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

The objective of the group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. Underpinning this framework is FLT's core philosophy of "ownership by our people", which allows employees to invest in their own success. The framework aligns executive reward with achievement of strategic objectives and the creation of shareholder value and conforms with market practice for reward delivery. 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
- · capital management.

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

Alignment to shareholders' interests:

- has profit as a core component of plan design
- focuses on sustained growth in shareholder wealth, consisting of dividends and share price growth and delivering constant return on assets, as well as focusing the executive on key non-financial drivers of value
- · attracts and retains high calibre executives.

Alignment to programme participants' interests:

- · rewards capability and experience
- · reflects competitive reward for contribution to growth in shareholder wealth
- provides a clear structure for earning rewards
- provides recognition for contribution.

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.

The Board has established a remuneration committee which provides advice on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors. The Corporate Governance Statement provides further information on this committee's role.

Non-executive directors

Non-executive directors' fees and payments reflect the position's demands and responsibilities and are reviewed annually by the Board. The chairman's fees are determined independently from the fees of non-executive directors. 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 and are not eligible to participate in the Flight Centre Limited Employee Share Plan.

Directors' fees

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

Remuneration report continued

Executive pay

The executive pay and reward framework has four components:

- · base pay and benefits
- short-term performance incentives
- other incentives through participation in the Business Ownership Scheme (BOS) programme, Flight Centre Limited Employee Option Plan,
 Senior Executive 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.

Superannuation

Contributions are 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 predescribed profit within their divisions. The remuneration committee sets annual profit targets 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 each year to ensure that targets are aligned to group and company strategic goals and that the appropriate compensation is achieved.

The remuneration committee is responsible for assessing whether the KPIs are met. To help make this assessment, the committee receives detailed reports on performance from management.

BOS interest

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

The BOS programme enables invited staff to invest directly in the operations of their division. Under this programme, 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 neither Flight Centre Limited nor any of its group companies guarantees returns.

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 Board's discretion, certain executives have been granted share options under the rules of the 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 both the 2006 and 2007 years.

Directors have not received any options during the year.

Executives are eligible to participate in the 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 41.

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

Remuneration report continued

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 2007 are set out in the following tables.

The key management personnel of Flight Centre Limited and the group includes the directors as per page 1 and the following executive officers who have authority and responsibility for planning, directing and controlling the activities of the entity's activities:

Group

| • | M.Aponas D.Burns C.Galanty | Executive General Manager Executive General Manager Executive General Manager | Franchise and Compliance FCm Travel Solutions Asia Pacific (resigned 25 August 2006) UK |
|--------|----------------------------------|---|---|
| • | S.Garrett | Executive General Manager | Australia |
| • | A.Grigson | Executive General Manager | Corporate |
| • | G.Hogan | Executive General Manager | Information Technology |
| • | R.Nath | Executive General Manager | India |
| • | S.O'Brien | Chief Financial Officer | |
| • | A.Slingsby | Executive General Manager | North America (resigned 15 August 2007) |
| • | A.Spence | Executive General Manager | Britannic |
| • | K.Stanley | Executive General Manager | Marketing (resigned 1 September 2006) |
| Parent | Entity | | |
| • | M.Aponas | Executive General Manager | Franchise and Compliance |
| • | D.Burns | Executive General Manager | FCm Travel Solutions Asia Pacific (resigned 25 August 2006) |
| • | S.Garrett | Executive General Manager | Australia |
| • | A.Grigson | Executive General Manager | Corporate |
| • | G.Hogan | Executive General Manager | Information Technology |
| • | S.O'Brien | Chief Financial Officer | |
| • | K.Stanley | Executive General Manager | Marketing (resigned 1 September 2006) |

In addition, the company secretary, G.Pringle, is a company and group executive whose remuneration must be disclosed under the Corporations Act 2001, as he is one of the five highest remunerated executives.

The following tables set out remuneration details for FLT's directors and other key management personnel. This includes each of the five officers of the company and the consolidated entity consisting of Flight Centre Limited and the entities it controlled who received the highest emoluments for the year ended 30 June 2007, as required under the Corporations Act 2001

Key management personnel and other executives of Flight Centre Limited

| 2007 | Short-term employee benefits | | Post-employment benefits | | Long- term benefits | Share-based payments | Total | |
|-----------------------------------|------------------------------|-----------|--------------------------|---------------------|---------------------------|-----------------------------|-----------------------------|-----------|
| Name | Cash salary and fees | Incentive | BOS Interest | Super- annuation | Termination benefits * | Long service leave ** | Share- based payments | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Non-executive directors | | | | | | | | |
| P.F.Barrow | 90,068 | - | - | - | - | - | - | 90,068 |
| H.L.Stack | 87,000 | - | - | 7,830 | - | - | - | 94,830 |
| B.R.Brown | 126,999 | - | - | 11,430 | - | - | - | 138,429 |
| Sub-total non-executive directors | 304,067 | - | - | 19,260 | - | - | - | 323,327 |
| Executive directors | | | | | | | | |
| G.F.Turner | - | 26,395 | - | - | - | - | - | 26,395 |
| Other key management personnel | | | | | | | | |
| M.Aponas ^ | 148,951 | 321,101 | - | 35,872 | - | 6,647 | 43,178 | 555,749 |
| D.Burns | 38,901 | 35,085 | - | 4,527 | 288,932 | - | - | 367,445 |
| S.Garrett | 148,952 | 266,293 | - | 14,320 | - | 1,557 | 43,178 | 474,300 |
| A.Grigson ^ | 129,800 | 202,915 | 420,039 | 18,415 | - | 24,504 | 43,178 | 838,851 |
| G.Hogan ^ | 139,834 | 363,948 | - | 37,010 | - | 2,330 | 43,178 | 586,300 |
| S.O'Brien ^ | 145,451 | 442,943 | - | 44,910 | - | 16,473 | 43,178 | 692,955 |
| K.Stanley | 38,313 | 27,519 | - | 5,852 | 54,890 | - | 43,178 | 169,752 |
| Total for each component | 1,094,269 | 1,686,199 | 420,039 | 180,166 | 343,822 | 51,511 | 259,068 | 4,035,074 |
| Other company executives | | | | | | | | |
| G.Pringle ^ | 148,703 | 359,293 | - | 36,033 | - | 7,555 | 43,178 | 594,762 |

^{*} Termination benefits include leave entitlements and redundancy payments owing to employees at the date of termination.

^{**} Long service leave includes amounts accrued during the year.

[^] One of the five highest paid executives of the company, as required to be disclosed under the Corporations Act 2001.

Key management personnel and other executives of the group

| 2007 | Short-term employee benefits | | Post-employment benefits | | Long- term benefits | Share-based payments | Total | | | |
|---|------------------------------|-----------|--------------------------|---------------------|---------------------------|-----------------------------|-----------------------------|-----------|--|--|
| Name | Cash salary and fees | Incentive | BOS Interest | Super- annuation | Termination benefits * | Long service leave ** | Share- based payments | | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | | |
| Non-executive directors | | | | | | | | | | |
| P.F.Barrow P.F.Barrow | 90,068 | - | - | - | - | - | - | 90,068 | | |
| H.L.Stack | 87,000 | - | - | 7,830 | - | - | - | 94,830 | | |
| B.R.Brown | 126,999 | - | - | 11,430 | - | - | - | 138,429 | | |
| Sub-total non-executive directors | 304,067 | - | - | 19,260 | - | - | - | 323,327 | | |
| Executive directors | Executive directors | | | | | | | | | |
| G.F.Turner | - | 26,395 | - | - | - | - | - | 26,395 | | |
| Other key management personnel | | | | | | | | | | |
| M.Aponas | 148,951 | 321,101 | - | 35,872 | - | 6,647 | 43,178 | 555,749 | | |
| D.Burns | 38,901 | 35,085 | - | 4,527 | 288,932 | - | - | 367,445 | | |
| C.Galanty ^ | 245,988 | 246,223 | 34,478 | 27,543 | - | - | 43,178 | 597,410 | | |
| S.Garrett | 148,952 | 266,293 | - | 14,320 | - | 1,557 | 43,178 | 474,300 | | |
| A.Grigson ^ | 129,800 | 202,915 | 420,039 | 18,415 | - | 24,504 | 43,178 | 838,851 | | |
| G.Hogan | 139,834 | 363,948 | - | 37,010 | - | 2,330 | 43,178 | 586,300 | | |
| R.Nath | 137,998 | 8,796 | - | 8,305 | - | - | - | 155,099 | | |
| S.O'Brien ^ | 145,451 | 442,943 | - | 44,910 | - | 16,473 | 43,178 | 692,955 | | |
| A.Slingsby ^ | 112,365 | 358,535 | - | - | - | 87,635 | 43,178 | 601,713 | | |
| A.Spence | 421,756 | - | - | 36,898 | - | - | - | 458,654 | | |
| K.Stanley | 38,313 | 27,519 | - | 5,852 | 54,890 | - | 43,178 | 169,752 | | |
| Total key management personnel compensation | 2,012,376 | 2,299,753 | 454,517 | 252,912 | 343,822 | 139,146 | 345,424 | 5,847,950 | | |
| Other group executives | | | | | | | | | | |
| G.Pringle ^ | 148,703 | 359,293 | - | 36,033 | - | 7,555 | 43,178 | 594,762 | | |

^{*} Termination benefits include leave entitlements and redundancy payments owing to employees at the date of termination.

^{**} Long service leave includes amounts accrued during the year.

[^] One of the five highest paid executives of the group, as required to be disclosed under the Corporations Act 2001.

Key management personnel and other executives of the group continued

| 2006 | Short-te | hort-term employee benefits | | | Post-employment benefits | | Share-based payments | Total |
|---|----------------------------|-----------------------------|--------------|---------------------|---------------------------|-----------------------------|-----------------------------|-----------|
| Name | Cash salary and fees | Incentive | BOS Interest | Super- annuation | Termination Benefits * | Long service leave ** | Share- based payments | 10:41 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Non-executive directors | | | | | | | | |
| 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 |
| Sub-total non-executive directors | 228,000 | - | - | 20,520 | - | - | - | 248,520 |
| Executive directors | | | | | | | | |
| G.F.Turner | - | 29,765 | - | - | - | - | - | 29,765 |
| S.J.Flynn | 50,000 | 30,837 | - | - | 550,000 | - | - | 630,837 |
| Other key management personnel | | | | | | | | |
| M.Aponas | 125,000 | 135,673 | - | 30,209 | - | 4,213 | 26,168 | 321,263 |
| D.Burns | 100,000 | 317,442 | - | 37,570 | - | - | - | 455,012 |
| C.Galanty | 142,213 | 112,150 | - | 13,014 | - | - | - | 267,377 |
| S.Garrett | 150,000 | 225,004 | - | 27,401 | - | 330 | 26,168 | 428,903 |
| A.Grigson | 150,000 | 394,141 | 443,040 | 32,768 | - | 6,678 | 26,168 | 1,052,795 |
| R.Hamilton | 103,790 | 445,066 | 14,751 | - | - | - | - | 563,607 |
| G.Hogan | 125,000 | 125,977 | - | 28,198 | - | 1,060 | 26,168 | 306,403 |
| R.Nath | 120,256 | 4,570 | - | 7,211 | - | - | - | 132,037 |
| S.O'Brien | 150,000 | 242,244 | - | 41,983 | - | 7,618 | 26,168 | 468,013 |
| G.Pringle | 137,615 | 150,000 | - | 26,589 | - | 5,073 | 26,168 | 345,445 |
| A.Slingsby | 121,229 | 876,549 | - | - | - | - | 26,168 | 1,023,946 |
| K.Stanley | 100,000 | 200,000 | - | 24,398 | - | - | 26,168 | 350,566 |
| D.White | 103,790 | 392,054 | 126,157 | - | - | - | 26,168 | 648,169 |
| Total key management personnel compensation | 1,906,893 | 3,681,472 | 583,948 | 289,861 | 550,000 | 24,972 | 235,512 | 7,272,658 |

R.Hamilton and D.White are not considered KMP for 2007.

^{*} Termination benefits include leave entitlements and redundancy payments owing to employees at the date of termination.

^{**} Long service leave includes amounts accrued during the year.

Key management personnel and other executives of the group continued

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

| Name | Fixed rem | nuneration | At risk – STI | | At risk – LTI | | | |
|---|-----------|------------|---------------|--------|---------------|--------|--|--|
| матте | 2007 % | 2006 % | 2007 % | 2006 % | 2007 % | 2006 % | | |
| Directors of Flight Centre Limited | | | | | | | | |
| P.F.Barrow | 100 | 100 | - | - | - | - | | |
| H.L.Stack | 100 | 100 | - | - | - | - | | |
| B.R.Brown | 100 | 100 | - | - | - | - | | |
| G.F.Turner | - | - | 100 | 100 | - | - | | |
| Other key management personnel of group | | | | | | | | |
| M.Aponas | 26 | 40 | 66 | 52 | 8 | 8 | | |
| D.Burns | 79 | 22 | 21 | 78 | - | - | | |
| C.Galanty | 41 | 53 | 52 | 47 | 7 | - | | |
| S.Garrett S.Garrett | 27 | 35 | 64 | 59 | 9 | 6 | | |
| A.Grigson | 16 | 14 | 79 | 83 | 5 | 3 | | |
| R.Nath | 94 | 91 | 6 | 9 | - | - | | |
| S.O'Brien | 22 | 32 | 72 | 62 | 6 | 6 | | |
| A.Slingsby | 19 | 11 | 74 | 86 | 7 | 3 | | |
| A.Spence | 92 | 100 | 8 | - | - | - | | |
| K.Stanley | 23 | 29 | 52 | 64 | 25 | 7 | | |
| Other Company and group executives | | | | | | | | |
| G.Pringle | 25 | 40 | 68 | 52 | 7 | 8 | | |

C Service agreements (audited)

There are no fixed-term service agreements with directors or key management personnel of the consolidated entity. The remuneration committee reviews key management personnel's remuneration annually. No contracts are in place for these employees, only annual renewal letters confirming the packaged salary for the year. The packaged salary of key management personnel consists of fixed (retainer) and variable (incentive) components. Details of the amount of remuneration received for the year and the percentages of fixed verse variable remuneration components are disclosed in Part B of the remuneration report. Directors and key management personnel may terminate employment with the company in accordance with statutory notice periods.

D Share-based compensation (audited) Options

Options are granted under the Flight Centre Limited Employee Option Plan (established October 1997 and amended October 2002) and the Senior Executive Option Plan (March 2006). Options are granted for no consideration and 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 achieve 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 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 | Date vested and exercisable | Expiry date | Exercise price | Value per option at grant date |
|---------------|--|---------------|----------------|--------------------------------|
| 30 March 2006 | 50% on release of the group's 2006 audited financial statements to the market and 50% on release of the group's 2007 audited financial statements to the market and are granted at no consideration. | 30 March 2011 | \$10.66 | \$1.96 |

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

The exercise price of options is based on the weighted average price at which the company's shares are traded on the Australian Securities Exchange during the week up to and including the date of grant.

Key management personnel and other executives of the group continued

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 parent entity and the group are set out below. When exercisable, each option is convertible into one ordinary share of Flight Centre Limited. Further information is set out in note 41.

| Name | | otions granted the year | Number of options vested during the year | | | | | |
|---------------------------------------|------|----------------------------|--|------|--|--|--|--|
| | 2007 | 2006 | 2007 | 2006 | | | | |
| Key management personnel of the group | | | | | | | | |
| M.Aponas | - | 40,000 | 10,000 | - | | | | |
| C.Galanty | - | 40,000 | 10,000 | - | | | | |
| S.Garrett | - | 40,000 | 10,000 | - | | | | |
| A.Grigson | - | 40,000 | 10,000 | - | | | | |
| G.Hogan | - | 40,000 | 10,000 | - | | | | |
| S.O'Brien | - | 40,000 | 10,000 | - | | | | |
| G.Pringle | - | 40,000 | 10,000 | - | | | | |
| A.Slingsby (resigned 15 August 2007) | - | 40,000 | 10,000 | - | | | | |
| K.Stanley (resigned 1 September 2006) | - | 40,000 | 10,000 | - | | | | |
| D.White | - | 40,000 | 10,000 | - | | | | |

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 2007 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

Details of ordinary shares in the company provided as a result of the exercise of remuneration options to each director of Flight Centre Limited and other key management personnel of the group are set out below.

| Name | Date of exercise of options | Number of ordinary shares issued on exercise of options during the year | |
|---|-----------------------------|---|------|
| | | 2007 | 2006 |
| Other key management personnel of the group | | | |
| K.Stanley (resigned 1 September 2006) | 11 December 2006 | 10,000 | - |

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 dateAmount paid per share
11 December 2006 \$10.66

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

Employee Share Plan

Under the Employee Share Plan, shares are either acquired on market by the Plan Trustee and allocated to the employee or new shares are issued. Shares were alloted to executive G.Pringle in 2006/07.

Key management personnel and other executives of the group continued

E Additional information (unaudited)

Performance of Flight Centre Limited

The overall level of executive reward takes into account the group's performance over a number of years with greater emphasis given to the current and prior year. A major proportion of current executive remuneration is based on company current year results, such as profit.

Details of remuneration: cash bonuses and options

For each incentive and grant of options included in the tables on pages 9-10, the percentage of the available bonus or grant that was paid or that vested in the financial year and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonuses is payable in future years. The options vest over two years, provided the vesting conditions are met (see page 9). No options will vest if the conditions are not satisfied, hence the minimum value of the option yet to vest is nil. The maximum value of the options yet to vest has been determined as the amount of the grant date fair value of the options that is yet to be expensed.

| | Ince | ntives | | 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 | 25 | 25 | 2008 | - | 39,200 |
| D.Burns | 100 | - | - | - | - | | - | - |
| C.Galanty | 100 | - | 2006 | 25 | 25 | 2008 | - | 39,200 |
| S.Garrett | 100 | - | 2006 | 25 | 25 | 2008 | - | 39,200 |
| A.Grigson | 100 | - | 2006 | 25 | 25 | 2008 | - | 39,200 |
| G.Hogan | 100 | - | 2006 | 25 | 25 | 2008 | - | 39,200 |
| R.Nath | 100 | - | - | - | - | | - | - |
| S.O'Brien | 100 | - | 2006 | 25 | 25 | 2008 | - | 39,200 |
| A.Slingsby | 100 | - | 2006 | 25 | 25 | 2008 | - | 39,200 |
| K.Stanley | 100 | - | 2006 | 25 | 75 | | - | - |
| G.Pringle | 100 | - | 2006 | 25 | 25 | 2008 | - | 39,200 |
| D.White | 100 | - | 2006 | 25 | 25 | 2008 | - | 39,200 |

Share-based compensation: Options

Further details relating to options are set out below:

| | A | В | С | D | E |
|---------------------|--|------------------------|---------------------------|------------------------|-------------------------|
| Name | Remuneration consisting of options | Value at grant date | Value at exercise date | Value at lapse date | Total of columns B-D |
| | % | \$ | \$ | \$ | \$ |
| M.Aponas | 7.9% | - | - | - | - |
| C.Galanty | 7.2% | - | - | - | - |
| S.Garrett S.Garrett | 9.1% | - | - | - | - |
| A.Grigson | 5.3% | - | - | - | - |
| G.Hogan | 7.4% | - | - | - | - |
| S.O'Brien | 6.4% | - | - | - | - |
| A.Slingsby | 7.2% | - | - | - | - |
| K.Stanley | 25.4% | - | 19,600 | - | 19,600 |
| G.Pringle | 7.4% | - | - | - | - |

- A = The percentage of the value of remuneration consisting of options, based on the value of options expensed during the current year.
- 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.
- C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year, being the intrinsic value of the options at that date.
- D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year.

Key management personnel and other executives of the group continued

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 2007 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 |
|----------------------|------------------|-----------------------|---------------------|
| 6 September 2002 | 6 September 2007 | \$28.40 | 9,000 |
| 1 November 2002 | 1 November 2007 | \$23.73 | 20,000 |
| 14 July 2003 | 14 July 2008 | \$22.46 | 10,800 |
| 30 March 2006 | 30 March 2011 | \$10.66 | 280,000 |
| | | | 319,800 |

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. Company officers covered by the insurance policy include 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

The company may decide to employ the auditor on assignments additional to its statutory audit duties where the auditor's expertise and experience with the company and/or the group are important.

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 the financial statements in Note 31.

The Board has considered the position and, in accordance with the advice received from the audit committee, is satisfied that the provision of 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 auditor's impartiality and objectivity
- none of the services undermines the general principles relating to auditor independence as set out in APES110 Code of Ethics for Professional Accountants.

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 13.

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 BRISBANE Director 31 August 2007



PricewaterhouseCoopers ABN 52 780 433 757

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Auditor's Independence Declaration

As lead auditor for the audit of Flight Centre Limited for the year ended 30 June 2007, 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

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.

040470701070

R A Baker Partner BRISBANE 31 August 2007

PricewaterhouseCoopers

Robert Baker

Pricewaterhouse Coopers

Financial Report

Income Statements

| | | Consolidated | | Pare | ent |
|--|-------|---------------------------|---------------------------|---------------------------|---------------------------|
| | Notes | 30 June 2007 \$'000 | 30 June 2006 \$'000 | 30 June 2007 \$'000 | 30 June 2006 \$'000 |
| Revenue from continuing operations | | | | | |
| Revenue from the sale of travel services | 3 | 1,120,434 | 973,711 | 602,044 | 517,774 |
| Other revenue | 3 | 32,060 | 24,968 | 70,415 | 44,640 |
| Total for Revenue from continuing operations | | 1,152,494 | 998,679 | 672,459 | 562,414 |
| Other income | 4 | 21,280 | 4,057 | 45,766 | 6,286 |
| Expenses | | | | | |
| Selling expenses | | (845,084) | (762,268) | (436,181) | (403,875) |
| Administration/support expenses | | (135,894) | (105,457) | (93,064) | (75,008) |
| Finance costs | 5 | (18,994) | (15,143) | (10,735) | (8,917) |
| Share of profit/(loss) of joint venture and associates accounted for using the equity method | 42/18 | 219 | (463) | - | - |
| Profit before income tax expense | | 174,021 | 119,405 | 178,245 | 80,900 |
| Income tax expense | 6 | (53,197) | (39,913) | (37,257) | (23,112) |
| Profit attributable to members of Flight Centre Limited | | 120,824 | 79,492 | 140,988 | 57,788 |
| Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company: | | Cents | Cents | | |
| Basic earnings per share | 40 | 127.5 | 84.6 | | |
| Diluted earnings per share | 40 | 127.5 | 84.5 | | |

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

Balance Sheets

| | | Consolidated | | Parent | | |
|---|-------|-----------------|----------------|-----------------|----------------|--|
| | | 30 June 30 June | | 30 June 30 June | | |
| | Notes | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 | |
| ASSETS | | | | | | |
| Current assets | | | | | | |
| Cash and cash equivalents | 8 | 469,225 | 293,916 | 268,351 | 118,945 | |
| Available-for-sale financial assets | 11 | 166,588 | 185,102 | 150,600 | 170,627 | |
| Receivables | 9 | 294,991 | 244,987 | 102,561 | 233,241 | |
| Current tax receivables | 10 | 9,918 | 5,596 | - | 4,291 | |
| Non-current assets classified as held-for-sale | 12 | - | 12,179 | - | 12,179 | |
| Total current assets | | 940,722 | 741,780 | 521,512 | 539,283 | |
| Non-current assets | | | | | | |
| Property, plant and equipment | 15 | 86,906 | 78,486 | 39,751 | 33,908 | |
| Intangible assets | 17 | 203,956 | 196,086 | 17,115 | 8,684 | |
| Deferred tax assets | 16 | 17,230 | 13,415 | 9,630 | 5,810 | |
| Other financial assets | 14 | - | - | 291,181 | 154,246 | |
| Investments accounted for using the equity method | 13 | 8,472 | 2,248 | - | - | |
| Total non-current assets | | 316,564 | 290,235 | 357,677 | 202,648 | |
| Total assets | | 1,257,286 | 1,032,015 | 879,189 | 741,931 | |
| LIABILITIES | | | | | | |
| Current liabilities | | | | | | |
| Trade and other payables | 19 | 646,785 | 499,824 | 338,197 | 262,415 | |
| Borrowings | 20 | 48,270 | 43,662 | 26,754 | 75,610 | |
| Provisions | 21 | 3,761 | 3,401 | 3,641 | 3,356 | |
| Current tax liabilities | 22 | 18,765 | 2,533 | 16,596 | - | |
| Total current liabilities | | 717,581 | 549,420 | 385,188 | 341,381 | |
| Non-current liabilities | | | | | | |
| Payables | 23 | 20,104 | 38,713 | 4,821 | 3,883 | |
| Borrowings | 24 | 27,000 | 27,000 | 27,000 | 27,000 | |
| Deferred tax liabilities | 25 | 245 | 378 | - | - | |
| Provisions | 26 | 10,367 | 8,442 | 9,724 | 8,342 | |
| Total non-current liabilities | | 57,716 | 74,533 | 41,545 | 39,225 | |
| Total liabilities | | 775,297 | 623,953 | 426,733 | 380,606 | |
| Net assets | | 481,989 | 408,062 | 452,456 | 361,325 | |
| EQUITY | | | | | | |
| Contributed equity | 27 | 260,828 | 260,715 | 260,828 | 260,715 | |
| Reserves | 28(a) | (5,655) | (7,770) | (188) | 657 | |
| Retained profits | 28(b) | 226,816 | 155,117 | 191,816 | 99,953 | |
| Total equity | | 481,989 | 408,062 | 452,456 | 361,325 | |

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

Statements of Changes in Equity

| | | Consol | idated | Par | ent |
|--|-------|---------------------------|---------------------------|---------------------------|---------------------------|
| | Notes | 30 June 2007 \$'000 | 30 June 2006 \$'000 | 30 June 2007 \$'000 | 30 June 2006 \$'000 |
| Total equity at the beginning of the financial year | | 408,062 | 372,649 | 361,325 | 349,577 |
| Adjustment on adoption of AASB 132 and AASB 139, net of tax, to reserves | 28 | - | (363) | - | (363) |
| Adjustment for correction of error | 28 | - | (2,404) | - | (1,363) |
| Restated total equity at the beginning of the financial year | | 408,062 | 369,882 | 361,325 | 347,851 |
| Changes in the fair value of available-for-sale financial assets, net of tax | 28 | (1,277) | 547 | (1,277) | 547 |
| Net exchange differences on translation of foreign operations | 28 | 2,960 | 3,002 | - | - |
| Net income recognised directly in equity | | 1,683 | 3,549 | (1,277) | 547 |
| Profit for the year | | 120,824 | 79,492 | 140,988 | 57,788 |
| Total recognised income and expense for the year | | 122,507 | 83,041 | 139,711 | 58,335 |
| Transactions with equity holders in their capacity as equity holders: | | | | | |
| Dividends provided for or paid | 7 | (49,125) | (45,391) | (49,125) | (45,391) |
| Employee share options | 28 | 432 | 416 | 432 | 416 |
| Tax effect of previous share issues | 27 | 113 | 114 | 113 | 114 |
| | | (48,580) | (44,861) | (48,580) | (44,861) |
| Total equity at the end of the financial year | | 481,989 | 408,062 | 452,456 | 361,325 |
| Total recognised income and expense for the year attributable to: | | | | | |
| Members of Flight Centre Limited | | 122,507 | 83,041 | 139,711 | 58,335 |

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

Cash Flow Statements

| | | Consol | idated | Par | ent |
|--|-------|-----------------|-----------------|-----------------|-----------------|
| | | 30 June 2007 | 30 June 2006 | 30 June 2007 | 30 June 2006 |
| | Notes | \$'000 | \$'000 | \$'000 | \$'000 |
| Cash flows from operating activities | | | | | |
| Receipts from customers (including GST) | | 1,103,972 | 1,021,427 | 603,575 | 577,540 |
| Payments to suppliers and employees (including GST) | | (842,460) | (862,853) | (458,839) | (502,429) |
| Dividends received | | - | - | 26,969 | 5,772 |
| Interest received | | 31,740 | 24,078 | 28,749 | 25,963 |
| Royalties received | | - | - | 14,512 | 12,173 |
| Interest paid | | (17,563) | (16,982) | (10,735) | (8,917) |
| Income taxes paid | | (45,078) | (42,696) | (20,190) | (33,391) |
| Net cash (outflow) inflow from operating activities | 39 | 230,611 | 122,974 | 184,041 | 76,711 |
| Cash flows from investing activities | | | | | |
| Payment for purchase of businesses and for additional issues of shares in subsidiaries | 35 | (12,919) | (18,965) | (96,786) | (27,020) |
| Payments for property, plant and equipment | 15 | (37,154) | (22,827) | (16,406) | (9,199) |
| Payments for intangibles | | (9,775) | (13,228) | (3,036) | (1,179) |
| Payments for investments | | (26,460) | (55,273) | (26,460) | (70,710) |
| Proceeds from sale of investments | | 43,150 | 63,171 | 44,663 | 57,448 |
| Proceeds from sale of property, plant and equipment | | 34,746 | 4,354 | 34,606 | 625 |
| Net cash (outflow) inflow from investing activities | | (8,412) | (42,768) | (63,419) | (50,035) |
| Cash flows from financing activities | | | | | |
| Repayment of intercompany loans | | - | - | 76,088 | - |
| Proceeds from borrowings | | 1,673 | 12,000 | - | 75,033 |
| Repayment of borrowings | | - | (5,600) | 1,821 | (45,853) |
| Dividends paid to company's shareholders | 7 | (49,125) | (45,391) | (49,125) | (45,391) |
| Net cash inflow (outflow) from financing activities | | (47,452) | (38,991) | 28,784 | (16,211) |
| Net increase (decrease) in cash held | | 174,747 | 41,215 | 149,406 | 10,465 |
| Cash and cash equivalents at the beginning of the financial year | | 281,571 | 238,727 | 118,945 | 106,954 |
| Effects of exchange rate changes on cash and cash equivalents | | (3,217) | 1,629 | - | 1,526 |
| Cash and cash equivalents at end of year | 8 | 453,101 | 281,571 | 268,351 | 118,945 |

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

Notes to 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 Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

Compliance with IFRS

Australian Accounting Standards include equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of Flight Centre Limited comply with International Financial Reporting Standards (IFRS).

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.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

(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 2007 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 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)).

The group applies a policy of treating transactions with minority interests as transactions with parties external to the group. Disposals to minority interests result in gains and losses for the group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid on the relevant share acquired of the carrying value of identifiable net assets of the subsidiary.

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.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

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

(ii) Associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (refer to note 42).

The group's share of its associates' post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

1 Summary of significant accounting policies continued

(iii) 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 joint venture entity's profits or losses 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 18.

Profits or losses on transactions with the joint venture are eliminated to the extent of the group's ownership interest until such time as they are realised by the joint venture entity on consumption or sale, unless they relate to an unrealised loss that provides evidence of the impairment of an asset transferred.

(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.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

(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 a borrowing 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

The group recognises revenue when the amount of revenue can be reliably measured, if it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved.

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 operations as agent for 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.

1 Summary of significant accounting policies continued

(v) Dividends

Dividends are recognised as revenue when the right to receive payment is established.

(vi) Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement.

(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 for 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 income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Tax consolidation legislation

Flight Centre Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation 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 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 agreements are disclosed in note 6.

Any differences between the amounts assumed and amounts receivable or payable under the tax funding agreements are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(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 or the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

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.

Lease income from operating leases where the group is a lessor is recognised in income on a straight-line basis over the lease term.

(g) Business combinations

The purchase method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments 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 published

1 Summary of significant accounting policies continued

market price at the date of the exchange unless, in those rare circumstances where it can be demonstrated that the published price at the date of the exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Business combinations involving companies and businesses under common control are accounted for using the predecessor value method.

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

Goodwill and intangible assets that have an indefinite useful life 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. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(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 using the effective interest method, less provision for impairment.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators that the trade debtors are impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the impairment is recognised in the income statement in other expenses.

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

(j) Non-current assets (or disposal groups) held-for-sale

Non-current assets (or disposal groups) are classified as held-for-sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction, rather than through continuing use.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell off an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held-for-sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held-for-sale continue to be recognised.

Non-current assets classified as held-for-sale and the assets of a disposal group classified as held-for-sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held-for-sale are presented separately from other liabilities in the balance sheet.

(k) Investments in associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost. The group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (refer to note 42).

The group's share of its associates' post acquisition profits or losses is recognised in the income statement and its share of post acquisition movements in reserves is recognised in reserves. The cumulative post acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates reduce the carrying amount of the investment.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the company.

1 Summary of significant accounting policies continued

(I) Investments and other financial assets

Classification

The group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group's management itends and is able to hold to maturity. If the group was to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from reporting date. These are classified as current assets.

(iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date - the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Subsequent measurement

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the income statement within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit and loss is recognised in the income statement as part of revenue from continuing operations when the group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Fair value

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (unlisted securities), the group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment

The group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference

1 Summary of significant accounting policies continued

between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

(m) 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. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement within finance costs, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in the income statement within other income or other expenses.

(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 within other income or other expense.

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. A change in the fair value of any derivative instrument that does not qualify for hedge accounting is recognised immediately in the income statement and is included in other income or other expenses.

(n) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The group uses a variety of methods and makes assumptions based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

The carrying value less impairment provision of trade receivables and payables is assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

(o) 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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

1 Summary of significant accounting policies continued

Land is not depreciated. Depreciation on other assets is calculated using the 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 and are included in the income statements.

(p) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's interest in the net fair value of the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on business acquisitions is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Goodwill is allocated to the group's cash-generating units (CGUs) identified according to relevant business and country of operation (note 17).

(ii) Software

Research costs associated with software development are expensed as incurred. Development expenditure incurred on an individual project is capitalised if the project is technically and commercially feasible and adequate resources are available to complete development. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Capitalised software is amortised using the straight-line method over the period of expected future benefits of the project, which varies from 2.5 to 5 years.

(iii) Other intangible assets

Other intangible assets, such as brand names, customer contracts and licences, are acquired as part of business combinations. Other intangible assets are recognised initially at fair value and are amortised over their expected useful life, not exceeding five years.

(q) Trade and other payables

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

(r) 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. Sick leave is recognised as an expense 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 benefits to employees on retirement through a defined contribution superannuation fund. Contributions to the defined contribution fund are recognised as expenses as they become payable.

(iv) Share-based payments

Share-based benefits are provided to employees via the Flight Centre Limited Employee Option Plan, Senior Executive Option Plan and the Employee Share Plan. Information relating to these plans is set out in note 41.

1 Summary of significant accounting policies continued

Share options

The fair value of options granted under the Flight Centre Limited Employee Option Plan and Senior Executive 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-tradable 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 monthly.

(vi) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(s) 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.

(t) 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 likely 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.

(u) Contributed equity

Ordinary shares are classified as equity (note 27).

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.

If the entity reacquires its own equity instruments, for example as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid, including any directly attributable incremental costs (net of income taxes), is recognised directly in equity.

1 Summary of significant accounting policies continued

(v) 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.

(w) Dividends

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

(x) Cash and cash equivalents

For cash flow statement presentation purposes, 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.

(y) Borrowings and borrowing costs

Borrowings are initially recognised at fair value, net of transaction costs incurred, and 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 group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

(z) New accounting standards and interpretations

Certain new accounting standards and UIG interpretations have been published but are not mandatory for the 30 June 2007 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 7 Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038]

AASB 7 and AASB 2005-10 apply to annual reporting periods beginning on or after 1 January 2007. AASB 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces AASB 130 Disclosures in the Financial Statements of Banks and Similar Financial Institutions and the disclosure requirements in IAS 32 Financial Instruments: Disclosure and Presentation. It applies to all reporting entities. The amendment to AASB 101 introduces disclosures about the level of an entity's capital and how it manages capital. The group assessed the impact of AASB 7 and the amendment to AASB 101 and concluded that the main additional disclosures would be the sensitivity analysis to market risk and the capital disclosures required by the amendment of AASB 101. The group will apply the standards from annual reporting periods beginning 1 July 2007.

(ii) Revised AASB 101 Presentation of Financial Statements

A revised AASB 101 was issued in October 2006 and applies to annual reporting periods beginning on or after 1 January 2007. The group has not adopted the standard early. Application of the revised standard will not impact on the group's financial statements.

(iii) AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a "management approach" to reporting on the financial performance. The information being reported will be based on what the key decision-makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The group has not yet decided when to adopt AASB 8. Application of AASB 8 may result in different segments, segment results and

1 Summary of significant accounting policies continued

different types of information being reported in the segment note of the financial report. However, it will not affect any of the amounts recognised in the financial statements.

(iv) AASB 2007-4 Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments and AASB 2007-7 Amendments to Australian Accounting Standards [AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 and AASB 128]

AASB 2007-4 and AASB 2007-7 apply to annual reporting periods beginning on or after 1 July 2007. The amendments introduce a number of options that existed under IFRS but had not been included in the original Australian equivalents to IFRS and remove many of the additional Australian disclosure requirements

The financial statements may be affected by:

- the ability to use the proportionate consolidation method for interests in joint venture entities
- the ability to use the indirect method for presenting cash flow statements, a possible exemption from the requirement to prepare consolidated
 financial reports for intermediate parent entities, provided they are wholly-owned or all shareholders agree and they are not the ultimate Australian
 parent entity in the group
- discount rates for employee benefits obligations to be based on corporate bonds if there is a deep market in Australia (previous guidance mandated the use of government bond rates).

The group will adopt the amendments arising from AASB 2007-4 and AASB 2007-7 for the financial year ending 30 June 2008. However, it does not intend to apply any of the new options now available. As a consequence, application of the revised standards will not affect any of the amounts recognised in the financial statements, but may remove some of the disclosures that are currently required. In relation to the discount rates used in the measurement of employee benefit obligations, the group has not yet reached a conclusion as to whether there is a deep market in corporate bonds in Australia and hence has not yet determined the financial effect, if any, on the obligations from the adoption of AASB 2007-4.

(v) AASB-I 10 Interim Financial Reporting and Impairment

AASB-I 10 applies to reporting periods beginning on or after 1 November 2006. The group has not recognised an impairment loss in relation to goodwill, investments in equity instruments or financial assets carried at cost in any interim reporting period but subsequently reversed the impairment loss in the annual report. Application of the interpretation will, therefore, have no impact on the group's or parent entity's financial statements.

(vi) AASB-I 13 Customer Loyalty Programmes

AASB-I 13 applies to annual reporting periods commencing on or after 1 July 2008. It provides guidance on accounting for customer loyalty programmes and requires that the fair value of the consideration received/receivable in respect of a sale transaction is allocated between the award credits and the other components of the sale. The group does not operate any customer loyalty programmes, however has a small loyalty programme that is available to staff only. Therefore, the adoption of AASB-I 13 is not expected to have a material impact on the group financial statements. The group will apply AASB-I 13 from 1 July 2008.

(aa) Segment reporting

A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

(ab) Comparative amounts

Prior year cash has been restated by \$19.728m due to a change in the definition of available-for-sale investments. The amendment has been made to increase cash and cash equivalents and decrease available-for-sale financial assets in the comparative amounts.

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

(ac) Financial guarantee contracts

A financial guarantee contract is recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that will be required without the guarantee, or the estimated amount that will be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of subsidiaries or associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

1 Summary of significant accounting policies continued

Change in accounting policy

The policy of recognising financial guarantee contracts as financial liabilities was adopted for the first time in the 2007 financial year. In previous reporting periods, a liability for financial guarantee contracts was only recognised if it was probable that the debtor would default and a payment would be required under the contract.

The change in policy was necessary following the change to AASB 139 Financial Instruments: Recognition and Measurement made by AASB 2005-9 Amendments to Australian Accounting Standards in September 2005. There was no material impact on the financial statements as a result of this change in accounting policy.

(ad) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case, it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

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(p). 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. Refer to note 17 for details of these assumptions and the potential impacts of changes to the assumptions.

(ii) Make-good provision

A provision is raised on inception of the lease where the lease agreement requires premises to be returned to their previous condition. An estimate is required to calculate the costs to bring premises to their original condition.

(iii) Provision for impairment of receivables

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

3 Revenue

| | Consolidated | | Parent | |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
| | 30 June 2007 \$'000 | 30 June 2006 \$'000 | 30 June 2007 \$'000 | 30 June 2006 \$'000 |
| Total Transaction Value (TTV) | 8,873,622 | 7,809,263 | 4,320,289 | 3,860,103 |
| From continuing operations | | | | |
| Revenue from the sale of travel services | | | | |
| Commission and fees from the provision of travel | 841,290 | 727,370 | 465,530 | 404,104 |
| Revenue from the provision of travel | 264,460 | 230,460 | 121,888 | 97,840 |
| Other revenue from travel services | 14,684 | 15,881 | 14,626 | 15,830 |
| | 1,120,434 | 973,711 | 602,044 | 517,774 |
| Other revenue | | | | |
| Rents and sub-lease rentals | 320 | 890 | 185 | 731 |
| Interest | 31,740 | 24,078 | 28,749 | 25,964 |
| Dividends | - | - | 26,969 | 5,772 |
| Royalties | - | - | 14,512 | 12,173 |
| | 32,060 | 24,968 | 70,415 | 44,640 |

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 operations, as agent for various airlines and other service providers, plus revenue from other sources. Flight Centre's revenue is derived from TTV.

4 Other income

| | Consolidated | | Par | ent |
|-------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | 30 June 2007 \$'000 | 30 June 2006 \$'000 | 30 June 2007 \$'000 | 30 June 2006 \$'000 |
| Net gain on disposal of PPE | 21,280 | - | 21,832 | - |
| Foreign exchange gains (net) | - | 4,057 | - | 6,286 |
| Intercompany loan forgiveness | - | - | 23,934 | - |
| | 21,280 | 4,057 | 45,766 | 6,286 |

(a) Net gain on disposal of property, plant and equipment

The net gain on sale of property, plant and equipment in 2007 includes an accounting gain of \$22,440,271 on the sale of 316 Adelaide Street Brisbane.

5 Expenses

| | Consol | idated | Par | ent |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| | 30 June 2007 \$'000 | 30 June 2006 \$'000 | 30 June 2007 \$'000 | 30 June 2006 \$'000 |
| Profit before income tax includes the following specific expenses: | | | | |
| Depreciation | | | | |
| Buildings | 6 | 730 | - | 655 |
| Plant and equipment | 26,740 | 24,320 | 10,259 | 8,950 |
| Total depreciation | 26,746 | 25,050 | 10,259 | 9,605 |
| Amortisation | | | | |
| Other Intangibles | 9,416 | 11,436 | 2,357 | 3,624 |
| Other charges against assets | | | | |
| Impairment charge of goodwill | 313 | - | 313 | - |
| Impairment charge of software | 4,572 | - | - | - |
| Bad and doubtful debts (writebacks) | 2,538 | (595) | 787 | (1,872) |
| Finance costs | | | | |
| Interest and finance charges paid/payable | 16,837 | 14,043 | 10,556 | 8,917 |
| Unwinding of provisions discount | 2,157 | 1,100 | 179 | - |
| Foreign exchange gains and losses (net gain in 2006 – see note 4) | | | | |
| Net foreign exchange losses | 10,273 | - | 7,182 | - |
| Defined contribution superannuation expense | 30,271 | 26,551 | 23,354 | 19,716 |
| Net loss on disposal of property, plant and equipment and intangible assets (net gain in 2007 – see note 4) | - | 1,933 | - | 473 |
| Rental expense relating to operating leases | | | | |
| Lease payments | 79,561 | 71,130 | 44,866 | 39,201 |

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, to the extent known.

6 Income tax expense

(a) Income tax expense

| | Consolidated | | Par | ent |
|---|--------------|---------|---------|---------|
| | 30 June | 30 June | 30 June | 30 June |
| | 2007 | 2006 | 2007 | 2006 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Current tax | 57,637 | 35,992 | 40,552 | 17,684 |
| Deferred tax | (3,401) | 3,471 | (3,273) | 5,288 |
| Under (over) provided in prior years | (1,039) | 450 | (22) | 140 |
| Income tax expense in relation to continuing operations | 53,197 | 39,913 | 37,257 | 23,112 |
| Deferred income tax (revenue) expense included in income tax expense comprises: | | | | |
| Decrease (increase) in deferred tax assets (note 16) | (1,166) | 1,037 | (1,171) | 2,037 |
| (Decrease) increase in deferred tax liabilities (note 25) | (2,235) | 2,434 | (2,102) | 3,251 |
| | (3,401) | 3,471 | (3,273) | 5,288 |

(b) Numerical reconciliation of income tax expense to prima facie tax payable

| | Consolidated | | Par | ent |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
| | 30 June 2007 \$'000 | 30 June 2006 \$'000 | 30 June 2007 \$'000 | 30 June 2006 \$'000 |
| Profit from continuing operations before income tax expense | 174,021 | 119,405 | 178,245 | 80,900 |
| Tax at the Australian tax rate of 30% (2006 $-$ 30%) | 52,207 | 35,822 | 53,473 | 24,270 |
| Tax effect of amounts which are not deductible (assessable) in calculating taxable income: | | | | |
| Non deductible (assessable) amounts | 1,310 | 1,655 | (923) | 432 |
| Intercompany loan forgiveness | - | - | (7,180) | - |
| Other amounts | (898) | 492 | - | 3 |
| Exempt dividends | - | - | (8,091) | (1,732) |
| | 52,619 | 37,969 | 37,279 | 22,973 |
| Tax losses not recognised | 1,077 | 1,722 | - | - |
| Effect of different tax rates on overseas income | 540 | (228) | - | - |
| Under (over) provision in prior years | (1,039) | 450 | (22) | 139 |
| | 578 | 1,944 | (22) | 139 |
| Income tax expense | 53,197 | 39,913 | 37,257 | 23,112 |

6 Income tax expense continued

(c) Amounts recognised directly in equity

| | Consolidated | | Par | ent |
|--|-----------------|-----------------|-----------------|-----------------|
| | 30 June 2007 | 30 June 2006 | 30 June 2007 | 30 June 2006 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| 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) | (113) | (114) | (113) | (114) |
| Net deferred tax – (credited)/debited directly to equity (notes 16 and 25) | (547) | 78 | (547) | 78 |

(d) Tax losses

| | Consolidated | | Par | ent |
|---|--------------|---------|---------|---------|
| | 30 June | 30 June | 30 June | 30 June |
| | 2007 | 2006 | 2007 | 2006 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Unused tax losses for which no deferred tax asset has been recognised | 18,758 | 18,604 | - | - |
| Potential tax benefit @ 30% | 6,327 | 6,201 | - | - |

All unused tax losses were incurred by entities in the United States of America, China and Hong Kong that are not part of the tax consolidated group.

(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 pay tax installments. The funding amounts are recognised as current intercompany receivables or payables (see note 34(e)).

7 Dividends

(a) Ordinary shares

| | Par | ent |
|---|----------------|----------------|
| | 30 June | 30 June |
| | 2007 \$'000 | 2006 \$'000 |
| Final ordinary dividend for the year ended 30 June 2006 of 32 cents (2005: 28 cents) per fully paid share, paid on 13 October 2006, fully franked | 30,231 | 26,497 |
| Interim ordinary dividend for the year ended 30 June 2007 of 20 cents (2006: 20 cents) per fully paid share, paid on 16 March 2007, fully franked | 18,894 | 18,894 |
| | 49,125 | 45,391 |

(b) Dividends not recognised at year-end

| | Par | ent |
|---|---------------------------|---------------------------|
| | 30 June 2007 \$'000 | 30 June 2006 \$'000 |
| In addition to the above dividends, since year-end the directors have recommended the payment of a final dividend of 46 cents (2006: 32.0 cents) per fully paid ordinary share fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 12 October 2007 out of retained profits at 30 June 2007, but not recognised as a liability at year-end is | 43,456 | 30,231 |

(c) Franked dividends

The franked portions of the final dividends recommended after 30 June 2007 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 2007.

| | Consolidated | | ed Parent | |
|---|--------------|---------|-----------|---------|
| | 30 June | 30 June | 30 June | 30 June |
| | 2007 | 2006 | 2007 | 2006 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Franking credits available for subsequent financial years based on a tax rate of $30\% \ (2006-30\%)$ | 66,029 | 42,419 | 66,029 | 42,419 |

The above amounts represent the balance of the franking account 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 consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

Payment of the dividend recommended by the directors since year-end, but not recognised as a liability at year-end, will reduce the franking account by \$18,624,290 (2006: \$12,956,028).

8 Current assets – Cash and cash equivalents

| | Consolidated | | Par | ent |
|--------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | 30 June 2007 \$'000 | 30 June 2006 \$'000 | 30 June 2007 \$'000 | 30 June 2006 \$'000 |
| Cash at bank and on hand | 165,447 | 61,815 | 129,991 | 34,060 |
| Term deposits | - | 51,639 | - | - |
| Client account | 303,778 | 180,462 | 138,360 | 84,885 |
| | 469,225 | 293,916 | 268,351 | 118,945 |

| | Consolidated | | Parent | |
|----------------------------------|----------------|----------------|----------------|----------------|
| | 30 June | 30 June | 30 June | 30 June |
| | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 |
| Restricted cash | | | | |
| Total cash and cash equivalents | 469,225 | 293,916 | 268,351 | 118,945 |
| Restricted client funds | (303,778) | (180,462) | (138,360) | (84,885) |
| Deposits subject to restrictions | - | (19,864) | - | (19,864) |
| Unrestricted cash | 165,447 | 93,590 | 129,991 | 14,196 |

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

The cash shown as client cash is held on behalf of customers until suppliers are paid on behalf of these customers. Restricted 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:

| | Consol | Consolidated | | ent |
|--------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | 30 June 2007 \$'000 | 30 June 2006 \$'000 | 30 June 2007 \$'000 | 30 June 2006 \$'000 |
| Balances as above | 469,225 | 293,916 | 268,351 | 118,945 |
| Bank overdrafts (note 20) | (16,124) | (12,345) | - | - |
| Balances per statement of cash flows | 453,101 | 281,571 | 268,351 | 118,945 |

(b) Cash at bank and on hand

These are bearing interest at between 0% and 9.2% (2006: 0% and 7.47%) for an average term of less than 3 months.

(c) Client account

These are bearing interest at between 0% and 9.00% (2006: 0% and 8.31%) for an average term of less than 3 months.

The weighted average cash fixed interest rate for the year was 7.27% (2006: 5.43%). The weighted average variable interest rate for the year was 6.86% (2006: 5.33%).

9 Current assets - Receivables

| | Consol | idated | Parent | |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| | 30 June 2007 \$'000 | 30 June 2006 \$'000 | 30 June 2007 \$'000 | 30 June 2006 \$'000 |
| Trade receivables | | | | |
| Trade receivables | 262,432 | 217,575 | 84,144 | 69,340 |
| Client receivables | 19,080 | 19,137 | 6,171 | 5,867 |
| Less: Provision for impairment of receivables | (7,949) | (8,039) | (4,118) | (4,230) |
| | 273,563 | 228,673 | 86,197 | 70,977 |
| Receivable from controlled entities | - | - | 9,269 | 159,021 |
| GST Receivable | 3,379 | 2,834 | - | 74 |
| Prepayments | 15,097 | 10,195 | 5,848 | 2,453 |
| Other receivables | 2,952 | 3,285 | 1,247 | 716 |
| | 294,991 | 244,987 | 102,561 | 233,241 |

(a) Impaired trade receivables

The group has recognised a loss of \$2,537,654 in respect of impaired receivables during the year ended 30 June 2007. The loss has been included in 'other expenses' in the income statement.

(b) Other receivables

These amounts generally arise from transactions outside the group's usual operating activities. Interest may be charged at commercial rates where the terms of repayment exceed six months. Collateral is not normally obtained.

(c) Effective interest rates

All receivables are non-interest bearing with the exception of receivables from controlled entities, which are bearing interest between 6% and 7% (2006: 2% and 8%).

10 Current assets - Current tax receivables

| | Consol | idated | Par | ent |
|-----------------------|---------|---------|---------|---------|
| | 30 June | 30 June | 30 June | 30 June |
| | 2007 | 2006 | 2007 | 2006 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Income tax receivable | 9,918 | 5,596 | - | 4,291 |

11 Current assets – Available-for-sale financial assets

| | Consolidated | | Parent | |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| | 30 June 2007 \$'000 | 30 June 2006 \$'000 | 30 June 2007 \$'000 | 30 June 2006 \$'000 |
| At beginning of year | 185,102 | - | 170,627 | - |
| Reclassified on adoption of AASB 132 and AASB 139 | - | 172,352 | - | 157,080 |
| Fair value adjustment on adoption of AASB 132 and AASB 139 | - | (363) | - | (363) |
| Additions | 26,460 | 68,611 | 26,460 | 68,611 |
| Disposals | (43,150) | (56,045) | (44,663) | (55,248) |
| Fair value revaluation surplus/(deficit) transfer to equity | (1,824) | 547 | (1,824) | 547 |
| At end of year | 166,588 | 185,102 | 150,600 | 170,627 |

| | Consol | idated | Pare | ent |
|-------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | 30 June 2007 \$'000 | 30 June 2006 \$'000 | 30 June 2007 \$'000 | 30 June 2006 \$'000 |
| Traded securities | 166,588 | 185,102 | 150,600 | 170,627 |
| | 166,588 | 185,102 | 150,600 | 170,627 |

Changes in the fair value of available-for-sale financial assets are recognised as a separate component from equity until the instrument is sold, collected or otherwise disposed of, or until an investment is determined to be impaired.

These are bearing interest at between 6% and 10% (2006: 6% and 15%).

The weighted average interest rate for the year was 7.96% (2006: 7.36%).

12 Non-current assets classified as held-for-sale

No non-current assets were classified as held-for-sale in the 2007 year. The land and buildings classified as held-for-sale in 2006 of \$12,179,587 was sold in 2007 (see note 4).

13 Non-current assets - Investments accounted for using the equity method

| | Consol | idated | Par | ent |
|---|----------------|----------------|----------------|----------------|
| | 30 June | 30 June | 30 June | 30 June |
| | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 |
| Shares in associates (note 42) | 8,472 | - | - | - |
| Interest in joint venture partnership (note 18) | - | 2,248 | - | - |

(a) Shares in associates

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting (refer to note 42)

(b) Interest in joint venture partnership

Interest in joint ventures are accounted for in the consolidated financial statements using the equity method of accounting (refer to note 18)

14 Non-current assets – Other financial assets

| | Consol | idated | Par | ent |
|--|---------|---------|---------|---------|
| | 30 June | 30 June | 30 June | 30 June |
| | 2007 | 2006 | 2007 | 2006 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Shares in subsidiaries - at cost (note 36) | - | - | 291,181 | 154,246 |
| | - | - | 291,181 | 154,246 |

| | Consolidated | | Parent | |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| | 30 June 2007 \$'000 | 30 June 2006 \$'000 | 30 June 2007 \$'000 | 30 June 2006 \$'000 |
| Balance at 1 July | - | - | 154,246 | 127,226 |
| Acquisitions of subsidiaries | - | - | 3,817 | - |
| Disposals of investments in joint ventures | - | - | (3,025) | - |
| Additional investments in existing subsidiaries | - | - | 136,143 | 27,020 |
| | - | - | 291,181 | 154,246 |

15 Non-current assets – Property, plant and equipment

| Consolidated | Freehold land and buildings | Plant and equipment | Total |
|--|--------------------------------|---------------------|-----------|
| | \$'000 | \$'000 | \$'000 |
| At 1 July 2005 | | | |
| Cost | 14,195 | 173,295 | 187,490 |
| Accumulated depreciation | (1,335) | (94,916) | (96,251) |
| Net book amount | 12,860 | 78,379 | 91,239 |
| Year ended 30 June 2006 | | | |
| 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) |
| Closing net book amount | 350 | 78,136 | 78,486 |
| At 30 June 2006 | | | |
| Cost | 392 | 183,737 | 184,129 |
| Accumulated depreciation | (42) | (105,601) | (105,643) |
| Net book amount | 350 | 78,136 | 78,486 |
| Consolidated | Freehold land and buildings | Plant and equipment | Total |
| | \$'000 | \$'000 | \$'000 |
| Year ended 30 June 2007 | | | |
| Opening net book amount | 350 | 78,136 | 78,486 |
| Exchange differences | (6) | (1,885) | (1,891) |
| Acquisitions | - | 1,190 | 1,190 |
| Additions | - | 37,154 | 37,154 |
| Disposals | - | (1,287) | (1,287) |
| Depreciation charge | (6) | (26,740) | (26,746) |
| Closing net book amount | 338 | 86,568 | 86,906 |
| At 30 June 2007 | | | |
| Cost | 386 | 212,974 | 213,360 |
| Accumulated depreciation | (48) | (126,406) | (126,454) |
| Net book amount | 338 | 86,568 | 86,906 |

15 Non-current assets – Property, plant and equipment continued

| Parent | Freehold land and buildings | Plant and equipment | Total |
|--|-----------------------------|---------------------|----------|
| | \$'000 | \$'000 | \$'000 |
| At 1 July 2005 | | | |
| Cost | 14,164 | 68,159 | 82,323 |
| Accumulated depreciation | (1,330) | (34,174) | (35,504) |
| Net book amount | 12,834 | 33,985 | 46,819 |
| Year ended 30 June 2006 | | | |
| 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) |
| Write-down of assets | - | - | - |
| Closing net book amount | - | 33,908 | 33,908 |
| At 30 June 2006 | | | |
| Cost | - | 76,003 | 76,003 |
| Accumulated depreciation | - | (42,095) | (42,095) |
| Net book amount | - | 33,908 | 33,908 |
| Parent | Freehold land and buildings | Plant and equipment | Total |
| | \$'000 | \$'000 | \$'000 |
| Year ended 30 June 2007 | | | |
| Opening net book amount | - | 33,908 | 33,908 |
| Acquisitions | - | 573 | 573 |
| Additions | - | 16,406 | 16,406 |
| Intercompany transfer | - | (58) | (58) |
| Disposals | - | (819) | (819) |
| Depreciation charge | - | (10,259) | (10,259) |
| Closing net book amount | - | 39,751 | 39,751 |
| At 30 June 2007 | | | |
| Cost | - | 93,462 | 93,462 |
| Accumulated depreciation | - | (53,711) | (53,711) |
| Net book amount | - | 39,751 | 39,751 |

16 Non-current assets – Deferred tax assets

| | Consolidated | | Parent | |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
| | 30 June 2007 \$'000 | 30 June 2006 \$'000 | 30 June 2007 \$'000 | 30 June 2006 \$'000 |
| The balance comprises temporary differences attributable to: | | | | |
| Doubtful debts | 2,083 | 2,205 | 1,235 | 1,269 |
| Employee benefits | 8,328 | 7,205 | 6,908 | 5,954 |
| Deferred interest | - | 93 | - | 93 |
| Depreciation | 2,876 | 3,593 | - | - |
| Accruals | 2,692 | 2,371 | 1,627 | 1,160 |
| Investment write-down | 464 | 150 | 464 | 150 |
| Other | 4,075 | 3,240 | 2,684 | 2,626 |
| Loyalty programme | 356 | 304 | 356 | 304 |
| Tax losses | - | - | - | - |
| | 20,874 | 19,161 | 13,274 | 11,556 |
| Set-off of deferred tax liabilities pursuant to set-off provisions (note 25) | (3,644) | (5,746) | (3,644) | (5,746) |
| Net deferred tax assets | 17,230 | 13,415 | 9,630 | 5,810 |
| Deferred tax assets to be recovered within 12 months | 11,789 | 10,820 | 8,040 | 7,271 |
| Deferred tax assets to be recovered after more than 12 months | 9,085 | 8,341 | 5,234 | 4,285 |
| | 20,874 | 19,161 | 13,274 | 11,556 |

16 Non-current assets – Deferred tax assets continued

| Movements – Consolidated | Employee benefits | Doubtful debts | Depreciation | Accruals | Other | Total |
|---|--|---|-----------------------------|------------------------------------|----------------------------------|--------------------------------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| At 1 July 2005 | 5,605 | 2,466 | 2,045 | 564 | 9,518 | 20,198 |
| (Charged)/credited to the income statement | 1,600 | (261) | 1,548 | 1,807 | (5,731) | (1,037) |
| At 30 June 2006 | 7,205 | 2,205 | 3,593 | 2,371 | 3,787 | 19,161 |
| Movements – Consolidated | Employee benefits | Doubtful debts | Depreciation | Accruals | Other | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| At 30 June 2006 | 7,205 | 2,205 | 3,593 | 2,371 | 3,787 | 19,161 |
| (Charged)/credited to the income statement | 1,123 | (122) | (717) | 321 | 561 | 1,166 |
| Charged directly to equity | - | - | - | - | 547 | 547 |
| At 30 June 2007 | 8,328 | 2,083 | 2,876 | 2,692 | 4,895 | 20,874 |
| Movements – Parent | Employee benefits | Doubtful debts | Depreciation | Accruals | Other | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| At 1 July 2005 | 5.621 | 1 000 | 400 | 416 | | 40.500 |
| | 3,021 | 1,830 | 402 | 416 | 5,324 | 13,593 |
| (Charged)/credited to the income statement | 333 | (561) | (402) | 744 | 5,324 (2,151) | (2,037) |
| (Charged)/credited to the income statement At 30 June 2006 | - , - | , | | | ŕ | , |
| | 333 | (561) | (402) | 744 | (2,151) | (2,037) |
| At 30 June 2006 | 333 5,954 Employee | (561) 1,269 | (402) | 744 1,160 | (2,151) 3,173 | (2,037) 11,556 |
| At 30 June 2006 | 333 5,954 Employee benefits | (561) 1,269 Doubtful debts | (402) - Depreciation | 744 1,160 Accruals | (2,151) 3,173 Other | (2,037) 11,556 Total |
| At 30 June 2006 Movements – Parent | 5,954 Employee benefits \$'000 | (561) 1,269 Doubtful debts \$'000 | (402) - Depreciation \$'000 | 744 1,160 Accruals \$'000 | (2,151) 3,173 Other \$'000 | (2,037) 11,556 Total \$'000 |
| At 30 June 2006 Movements – Parent At 30 June 2006 | 333 5,954 Employee benefits \$'000 5,954 | (561) 1,269 Doubtful debts \$'000 1,269 | (402) - Depreciation \$'000 | 744 1,160 Accruals \$'000 1,160 | (2,151) 3,173 Other \$'000 3,173 | (2,037) 11,556 Total \$'000 11,556 |

17 Non-current assets – Intangible assets

| Consolidated | Goodwill | Other intangible assets | Total |
|---|----------|-------------------------|----------|
| | \$'000 | \$'000 | \$'000 |
| At 1 July 2005 | | | |
| Cost | 141,045 | 44,994 | 186,039 |
| Accumulated amortisation and impairment | - | (20,368) | (20,368) |
| Net book amount | 141,045 | 24,626 | 165,671 |
| Year ended 30 June 2006 | | | |
| 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) |
| Amortisation charge * | - | (11,436) | (11,436) |
| Closing net book amount | 171,286 | 24,800 | 196,086 |
| At 30 June 2006 | | | |
| Cost | 171,286 | 52,091 | 223,377 |
| Accumulated amortisation and impairment | - | (27,291) | (27,291) |
| Net book amount | 171,286 | 24,800 | 196,086 |
| Consolidated | Goodwill | Other intangible assets | Total |
| | \$'000 | \$'000 | \$'000 |
| Year ended 30 June 2007 | | | |
| Opening net book amount | 171,286 | 24,800 | 196,086 |
| Exchange differences | (4,165) | 456 | (3,709) |
| Additions | 3,014 | 6,762 | 9,776 |
| Acquisitions | 13,630 | 2,474 | 16,104 |
| Impairment charge | (313) | (4,572) | (4,885) |
| Amortisation charge * | - | (9,416) | (9,416) |
| Closing net book amount | 183,452 | 20,504 | 203,956 |
| At 30 June 2007 | | | |
| Cost | 183,452 | 55,144 | 238,596 |
| Accumulated amortisation and impairment | - | (34,640) | (34,640) |
| Net book amount | 183,452 | 20,504 | 203,956 |

17 Non-current assets – Intangible assets continued

| Parent | Goodwill | Other intangible assets | Total |
|---|----------|-------------------------|----------|
| | \$'000 | \$'000 | \$'000 |
| At 1 July 2005 | | | |
| Cost | 4,860 | 14,958 | 19,818 |
| Accumulated amortisation and impairment | - | (6,705) | (6,705) |
| Net book amount | 4,860 | 8,253 | 13,113 |
| Year ended 30 June 2006 | | | |
| Opening net book amount | 4,860 | 8,253 | 13,113 |
| Intercompany transfer | (1,212) | - | (1,212) |
| Additions | - | 1,179 | 1,179 |
| Disposals | - | (772) | (772) |
| Amortisation charge ** | - | (3,624) | (3,624) |
| Closing net book amount | 3,648 | 5,036 | 8,684 |
| At 30 June 2006 | | | |
| Cost | 3,648 | 14,581 | 18,229 |
| Accumulated amortisation and impairment | - | (9,545) | (9,545) |
| Net book amount | 3,648 | 5,036 | 8,684 |
| Parent | Goodwill | Other intangible assets | Total |
| | \$'000 | \$'000 | \$'000 |
| Year ended 30 June 2007 | | | |
| Opening net book amount | 3,648 | 5,036 | 8,684 |
| Additions | - | 3,036 | 3,036 |
| Acquisitions | 6,939 | 2,342 | 9,281 |
| Intercompany transfers | (1,573) | 357 | (1,216) |
| Impairment | (313) | - | (313) |
| Amortisation charge ** | - | (2,357) | (2,357) |
| Closing net book amount | 8,701 | 8,414 | 17,115 |
| At 30 June 2007 | | | |
| Cost | 8,701 | 21,291 | 29,992 |
| Accumulated amortisation and impairment | - | (12,877) | (12,877) |
| Net book amount | 8,701 | 8,414 | 17,115 |

Other intangible assets predominantly relate to software.

^{*} Amortisation of \$9,416,000 (2006: \$11,436,000) is included in depreciation and amortisation expense in the income statement.

^{**} Amortisation of \$2,357,000 (2006: \$3,624,000) is included in depreciation and amortisation expense in the income statement.

17 Non-current assets – Intangible assets continued

(a) Impairment tests for goodwill

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

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

| 2007 | Australia | UK | Other countries * | Total |
|----------|-----------|--------|-------------------|---------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Goodwill | 49,224 | 89,131 | 45,097 | 183,452 |
| 2006 | Australia | UK | Other countries * | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Goodwill | 43,590 | 91,165 | 36,531 | 171,286 |

The recoverable amount of a CGU is determined based on a value-in-use calculation. 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.

*Other countries consists of a number of non individually significant CGUs.

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

| CGU | Gross margin * | | Growth rate ** | | Discount rate *** | |
|-----------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 30 June 2007 % | 30 June 2006 % | 30 June 2007 % | 30 June 2006 % | 30 June 2007 % | 30 June 2006 % |
| Goodwill | | | | | | |
| Australia | 8.8 | 9.9 | - | - | 19.5 | 19.5 |
| UK | 12.2 | 9.1 | - | - | 19.5 | 19.5 |
| Other countries | 10.8 | 9.0 | 0.3 | - | 19.5 | 19.5 |

^{*} Budgeted gross margin.

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 future expectations. 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.

(c) Impairment charge

The impairment charge to goodwill in 2007 arose due to the closing down of two travel companies within Australia (\$71K) and NZ (\$242K). The impairment charge to software in 2007 arose due to the write-off of Lumina software (\$4,572K). The software was deemed to have a nil value because all functions performed by the software are now being carried out by other Flight Centre software.

18 Interests in joint ventures

Joint venture entity

On 1 July 2006 via its Flight Centre China Pty Ltd subsidiary, the group acquired an additional 45% shareholding in Comfort Business Travel Services Company Ltd, a travel agency operating in China (refer note 36). The group previously held an investment in the acquired business as a 50% joint venture partner. The group now holds a 95% controlling interest in the business.

^{**} 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 pre-tax discount rates to discount the forecast future attributable pre-tax cash flows.

18 Interests in joint ventures continued

Information relating to the joint venture is presented in accordance with the accounting policy described in note 1 and is set out below. From 1 July 2006, the investment is accounted for as a subsidiary (refer to note 36)

| | Consolidated | | Par | ent |
|--|----------------|----------------|----------------|----------------|
| | 30 June | 30 June | 30 June | 30 June |
| | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 |
| Carrying amount of investment in joint venture | - | 2,248 | - | - |
| | - | 2,248 | - | - |

| | Consolidated | | |
|---|--------------|---------|--|
| | 30 June | 30 June | |
| | 2007 | 2006 | |
| | \$'000 | \$'000 | |
| Share of joint venture assets and liabilities | | | |
| Current assets | - | 2,185 | |
| Non-current assets | - | 150 | |
| Total assets | - | 2,335 | |
| Current liabilities | - | 1,282 | |
| Net assets | - | 1,053 | |

| | Consolidated | | |
|--|--------------|---------|--|
| | 30 June | 30 June | |
| | 2007 | 2006 | |
| | \$'000 | \$'000 | |
| Share of joint venture's revenue, expenses and results | | | |
| Revenues | - | 539 | |
| Expenses | - | (1,002) | |
| Profit before income tax | - | (463) | |
| Share of joint venture's commitments | | | |
| Lease commitments | - | 10 | |

19 Current liabilities – Trade and other payables

| | Consolidated | | Par | ent |
|--------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | 30 June 2007 \$'000 | 30 June 2006 \$'000 | 30 June 2007 \$'000 | 30 June 2006 \$'000 |
| Trade payables | 396,910 | 312,037 | 207,235 | 164,803 |
| Client creditors | 203,467 | 167,846 | 114,354 | 84,885 |
| Accrued unsecured note interest | 4,367 | 2,825 | 2,886 | 1,721 |
| GST Payable | - | - | 82 | - |
| Annual leave | 19,528 | 15,702 | 12,431 | 9,565 |
| Accrual for vouchers | 1,456 | 1,414 | 1,186 | 1,414 |
| Deferred Consideration ** | 21,057 | - | - | - |
| Amounts owing to controlled entities | - | - | 23 | 27 |
| | 646,785 | 499,824 | 338,197 | 262,415 |

^{**} See note 23 for more information.

20 Current liabilities – Borrowings

| | Consolidated | | Pare | ent |
|--|--------------|---------|---------|---------|
| | 30 June | 30 June | 30 June | 30 June |
| | 2007 | 2006 | 2007 | 2006 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Secured | | | | |
| Bank overdrafts | 3,436 | 1,502 | - | - |
| Unsecured | | | | |
| Amounts owing to controlled entities - unsecured | - | - | - | 50,677 |
| Unsecured notes principal | 32,146 | 31,317 | 26,754 | 24,933 |
| Bank overdraft | 12,688 | 10,843 | - | - |
| Total current borrowings | 48,270 | 43,662 | 26,754 | 75,610 |

Controlled entities

The amounts owing to controlled entities are repayable on demand in accordance with individual loan agreements. Until that time, they incur interest at rates varying between 6.00% and 6.7% (2006: varying amounts between 5.67% and 8.25%).

Unsecured notes

These relate to the group's Business Ownership Scheme and are repayable on demand by either party or upon termination of the note holder's employment. 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 35.99% (2006:31.04%) calculated on the face value of the unsecured note's principal.

Bank overdraft

Total secured overdraft facilities available to the group are \$3.8m (2006: \$3m). These bear interest at 5.85% (2006: 7%).

Total unsecured overdraft facilities available to the group are \$16.0m (2006: \$11.5m). These bear interest between 8% and 11% (2006: 7% and 10%).

The utilised facilities secured by a letter of credit were \$3.4m (2006: \$1.5m).

The utilised unsecured facilities were \$12.7m (2006: \$10.8m).

21 Current liabilities - Provisions

| | Consol | idated | Par | ent |
|--|---------|---------|---------|---------|
| | 30 June | 30 June | 30 June | 30 June |
| | 2007 | 2006 | 2007 | 2006 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Employee benefits – Long service leave | 3,761 | 3,401 | 3,641 | 3,356 |

22 Current liabilities - Current tax liabilities

| | Consolidated | | Par | ent |
|------------------------|--------------|---------|---------|---------|
| | 30 June | 30 June | 30 June | 30 June |
| | 2007 | 2006 | 2007 | 2006 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Provision for taxation | 18,765 | 2,533 | 16,596 | - |

23 Non-current liabilities - Payables

| | Consolidated | | Parent | |
|-----------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | 30 June 2007 \$'000 | 30 June 2006 \$'000 | 30 June 2007 \$'000 | 30 June 2006 \$'000 |
| Other payables | 3,361 | 2,852 | 1,533 | 1,395 |
| Deferred settlement consideration | 12,712 | 31,830 | 800 | - |
| Straight-line lease liability | 4,031 | 4,031 | 2,488 | 2,488 |
| | 20,104 | 38,713 | 4,821 | 3,883 |

Deferred settlement consideration relates to amounts payable to previous owners of businesses that Flight Centre has purchased. The amounts payable are discounted to their present value as at the date of exchange. A portion of the deferred consideration has been reclassified as current. This relates to the final payment for the purchase of Britannic Travel Limited, as this is due for payment in December 2007 (See note 19).

24 Non-current liabilities - Borrowings

| | Consolidated | | Paro | ent |
|-----------|--------------|---------|---------|---------|
| | 30 June | 30 June | 30 June | 30 June |
| | 2007 | 2006 | 2007 | 2006 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Unsecured | | | | |
| Bank Loan | 27,000 | 27,000 | 27,000 | 27,000 |

(a) Financing arrangements

| | Consolidated | | Par | ent |
|------------------------|--------------|----------|----------|----------|
| | 30 June | 30 June | 30 June | 30 June |
| | 2007 | 2006 | 2007 | 2006 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Bank loan facilities | | | | |
| Total facilities | 50,000 | 50,000 | 50,000 | 50,000 |
| Used at balance date | (27,000) | (27,000) | (27,000) | (27,000) |
| Unused at balance date | 23,000 | 23,000 | 23,000 | 23,000 |

24 Non-current liabilities – Borrowings continued

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

The current interest rates are 6.73% on the bank loans (2006: 6.25%)

Multi-option facility

The company is party to a secured multi-option credit facility of \$20,000,000 (2006: \$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 were \$4,442,974 (2006: \$7,870,072). The total value of the securities held under charge was \$11,869,813 (2006: \$17,365,433).

Letter of credit facilities (unsecured)

A letter of credit facility of \$98,942,256 is available to the company (2006: \$57,500,000). The total letters of credit issued under this facility were \$88,229,369 (2006: \$56,495,665).

A purchase card facility of \$35,000,000 is available to the company. (2006: \$35,000,000)

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.

(b) Interest rate risk exposures

The group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following table.

Exposures arise predominantly from liabilities bearing variable interest rates, as the group intends to hold fixed rate assets and liabilities to maturity.

| | Floating | | | Fixed inte | erest rate | | | |
|---|------------------|-------------------|-------------------|-------------------|-------------------|-----------------|----------------------------|--------|
| | interest rate | 1 year or less | Over 1 to 5 years | Over 2 to 3 years | Over 3 to 4 years | Over 5 years | Non interest bearing | Total |
| 2007 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Bank overdrafts and loans (notes 20 and 24) | 43,124 | - | - | - | - | - | - | 43,124 |
| Unsecured notes principal (notes 20 and 24) | 32,146 | - | - | - | - | - | - | 32,146 |
| Weighted average interest rate | 19.6% | -% | -% | -% | -% | -% | -% | |

| | Floating | | | Fixed into | erest rate | | | |
|---|------------------|-------------------|-------------------|-------------------|-------------------|-----------------|----------------------------|--------|
| | interest rate | 1 year or less | Over 1 to 5 years | Over 2 to 3 years | Over 3 to 4 years | Over 5 years | Non interest bearing | Total |
| 2006 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Bank overdrafts and loans (notes 20 and 24) | 39,345 | - | - | - | - | - | - | 39,345 |
| Unsecured notes principal (notes 20 and 24) | 31,317 | - | - | - | - | - | - | 31,317 |
| Weighted average interest rate | 17.8% | -% | -% | -% | -% | -% | -% | |

24 Non-current liabilities – Borrowings continued

(c) Fair value

The carrying amounts and fair values of borrowings at balance date are:

| | 30 June 2007 | | 30 J 20 | |
|----------------------------------|---------------------------|----------------------|---------------------------|----------------------|
| | Carrying amount \$'000 | Fair value \$'000 | Carrying amount \$'000 | Fair value \$'000 |
| On-balance sheet | | | | |
| Non-traded financial liabilities | | | | |
| Bank overdrafts | 16,124 | 16,124 | 12,345 | 12,345 |
| Bank loans | 27,000 | 27,000 | 27,000 | 27,000 |
| Unscecured notes principal | 32,146 | 32,146 | 31,317 | 31,317 |
| | 75,270 | 75,270 | 70,662 | 70,662 |

25 Non-current liabilities - Deferred tax liabilities

| | Consol | idated | Par | ent |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| | 30 June 2007 \$'000 | 30 June 2006 \$'000 | 30 June 2007 \$'000 | 30 June 2006 \$'000 |
| The balance comprises temporary differences attributable to: | | | | |
| Prepayments | 16 | 45 | - | - |
| Receivables | 2,714 | 1,672 | 2,704 | 1,672 |
| Depreciation | 773 | 636 | 588 | 408 |
| Foreign exchange movements | 9 | 1,258 | 9 | 1,258 |
| Other | 377 | 2,513 | 343 | 2,408 |
| | 3,889 | 6,124 | 3,644 | 5,746 |
| Set-off of deferred tax liabilities of parent entity pursuant to set-off provisions (note 16) | (3,644) | (5,746) | (3,644) | (5,746) |
| Net deferred tax liabilities | 245 | 378 | - | - |
| Deferred tax liabilities to be settled within 12 months | 2,722 | 4,552 | 2,713 | 4,403 |
| Deferred tax liabilities to be settled after more than 12 months | 1,167 | 1,572 | 931 | 1,343 |
| | 3,889 | 6,124 | 3,644 | 5,746 |

25 Non-current liabilities – Deferred tax liabilities continued

| Movements – Consolidated | Receivables | Depreciation | Foreign exchange movements | Other | Total |
|--|-------------|--------------|----------------------------------|---------|---------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| At 1 July 2005 | 1,972 | 4,732 | - | (3,262) | 3,442 |
| Charged/(credited) to the income statement | (300) | (4,096) | 1,258 | 5,572 | 2,434 |
| Charged directly to equity | - | - | - | 78 | 78 |
| Acquisition of subsidiary | - | - | - | 170 | 170 |
| At 30 June 2006 | 1,672 | 636 | 1,258 | 2,558 | 6,124 |
| Movements – Consolidated | Receivables | Depreciation | Foreign exchange movements | Other | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| At 30 June 2006 | 1,672 | 636 | 1,258 | 2,558 | 6,124 |
| Charged/(credited) to the income statement | 1,042 | 137 | (1,249) | (2,165) | (2,235) |
| At 30 June 2007 | 2,714 | 773 | 9 | 393 | 3,889 |
| Movements – Parent | Receivables | Depreciation | Foreign exchange movements | Other | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| At 1 July 2005 | 1,928 | 143 | - | 346 | 2,417 |
| Charged/(credited) to the income statement | (256) | 265 | 1,258 | 1,984 | 3,251 |
| Charged directly to equity | - | - | - | 78 | 78 |
| At 30 June 2006 | 1,672 | 408 | 1,258 | 2,408 | 5,746 |
| Movements – Parent | Receivables | Depreciation | Foreign exchange movements | Other | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| At 30 June 2006 | 1,672 | 408 | 1,258 | 2,408 | 5,746 |
| Charged/(credited) to the income statement | 1,032 | 180 | (1,249) | (2,065) | (2,102) |
| At 30 June 2007 | 2,704 | 588 | 9 | 343 | 3,644 |

26 Non-current liabilities- Provisions

| | Consolidated | | Par | ent |
|--|--------------|---------|---------|---------|
| | 30 June | 30 June | 30 June | 30 June |
| | 2007 | 2006 | 2007 | 2006 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Employee benefits – Long service leave | 6,955 | 5,928 | 6,955 | 5,928 |
| Make-good provision | 3,412 | 2,514 | 2,769 | 2,414 |
| | 10,367 | 8,442 | 9,724 | 8,342 |

Movements in provisions

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

| | Make-good Provision |
|--|------------------------|
| | \$'000 |
| Consolidated – 2007 | |
| Non-current | |
| Carrying amount at start of year | 2,514 |
| Additional provisions recognised | 719 |
| Increase in discounted amount arising from passage of time and effect of any change in the discount rate | 179 |
| Carrying amount at end of year | 3,412 |

| | Make-good Provision |
|--|------------------------|
| | \$'000 |
| Parent – 2007 | |
| Non-current | |
| Carrying amount at start of year | 2,414 |
| Additional provisions recognised | 176 |
| Increase in discounted amount arising from passage of time and effect of any change in the discount rate | 179 |
| Carrying amount at end of year | 2,769 |

Flight Centre Limited is required to restore the leased premises of its retail stores to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised as part of the cost of the leasehold improvements and are amortised over the shorter of the term of the lease or the useful life of the assets.

27 Contributed equity

(a) Share capital

| | | Parent | | Parent | |
|----------------------------|---------|------------|------------|---------|---------|
| | | 30 June | 30 June | 30 June | 30 June |
| | | 2007 | 2006 | 2007 | 2006 |
| | Notes | Shares | Shares | \$'000 | \$'000 |
| Fully paid ordinary shares | (b),(c) | 94,471,035 | 94,471,035 | 260,828 | 260,715 |

27 Contributed equity continued

(b) Movements in ordinary share capital:

| Date | Details | Number of shares | \$'000 |
|--------------|------------------------------------|------------------|---------|
| 1 July 2005 | Opening balance | 94,471,035 | 260,602 |
| | Tax effect of previous issue costs | | 113 |
| 30 June 2006 | Balance | 94,471,035 | 260,715 |
| 1 July 2006 | Opening balance | 94,471,035 | 260,715 |
| | Tax effect of previous issue costs | | 113 |
| 30 June 2007 | Balance | 94,471,035 | 260,828 |

(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 either in person or by proxy is entitled to one vote. Upon a poll, each 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 41.

(e) Employee Share Plan

Information relating to the Flight Centre Limited Employee Share Plan is set out in note 41.

(f) Senior Executive Option Plan

Information relating to the Flight Centre Limited Senior Executive Option Plan, including details of options issued during the financial year, is set out in note 41.

28 Reserves and retained profits

(a) Reserves

| | Consolidated | | Par | ent |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
| | 30 June 2007 \$'000 | 30 June 2006 \$'000 | 30 June 2007 \$'000 | 30 June 2006 \$'000 |
| Available-for-sale investments revaluation reserve | (1,093) | 184 | (1,093) | 184 |
| Share-based payments reserve | 905 | 473 | 905 | 473 |
| Foreign currency translation reserve | (5,467) | (8,427) | - | - |
| | (5,655) | (7,770) | (188) | 657 |

28 Reserves and retained profits continued

| | Consolidated | | Par | ent | | | |
|---|---------------------------|---------------------------|---------------------------|---------------------------|--|--|--|
| | 30 June 2007 \$'000 | 30 June 2006 \$'000 | 30 June 2007 \$'000 | 30 June 2006 \$'000 | | | |
| MOVEMENTS: | | | | | | | |
| Available-for-sale investments revaluation reserve | | | | | | | |
| Balance 1 July | 184 | - | 184 | - | | | |
| Adjustment on adoption of AASB 132 and AASB 139 | - | (363) | - | (363) | | | |
| Fair value adjustments; net of tax | (1,277) | 547 | (1,277) | 547 | | | |
| Balance 30 June | (1,093) | 184 | (1,093) | 184 | | | |
| Share-based payments reserve | | | | | | | |
| Balance 1 July | 473 | 57 | 473 | 57 | | | |
| Option expense | 432 | 416 | 432 | 416 | | | |
| Balance 30 June | 905 | 473 | 905 | 473 | | | |
| Foreign currency translation reserve | | | | | | | |
| Balance 1 July | (8,427) | (11,430) | - | - | | | |
| Net exchange differences on translation of foreign operations | 2,960 | 3,003 | - | - | | | |
| Balance 30 June | (5,467) | (8,427) | - | - | | | |

(b) Retained profits

| | Consolidated | | Paro | ent |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| | 30 June 2007 \$'000 | 30 June 2006 \$'000 | 30 June 2007 \$'000 | 30 June 2006 \$'000 |
| Balance 1 July | 155,117 | 123,420 | 99,953 | 88,919 |
| Profit for the year | 120,824 | 79,492 | 140,988 | 57,788 |
| Dividends | (49,125) | (45,391) | (49,125) | (45,391) |
| Adjustment on correction of error (note 44) | - | (2,404) | - | (1,363) |
| Balance 30 June | 226,816 | 155,117 | 191,816 | 99,953 |

(c) Nature and purpose of reserves

(i) Available-for-sale investments revaluation reserve

Changes in the fair value of investments, classified as available-for-sale financial assets, are taken to the available-for-sale investments revaluation reserve, as described in note 1(l). 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 programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. The group uses foreign exchange contracts to hedge certain risk exposures.

These areas of risk management are 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 co-operation 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.

Forward contracts are used to manage foreign exchange risk. Group Treasury manages exposures in each foreign currency by using external forward currency contracts (see note 1 (i)).

(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. Derivative counterparties and cash transactions are limited to high credit quality financial institutions. The group has policies that limit the amount of credit exposure to any one financial institution.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. 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 Key management personnel disclosures

(a) Directors

Refer to page 1 of the Directors' Report.

(i) Chairman

B.R.Brown

(ii) Executive director

G F Turner

(iii) Non-executive directors

P.F.Barrow

H.L.Stack

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

30 Key management personnel disclosures continued

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the group's activities, directly or indirectly, during the financial year:

Refer to page 5 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 |
| C.Galanty | Executive General Manager - UK | Flight Centre (UK) Ltd |
| S.Garrett S.Garrett | Executive General Manager - Australia | Flight Centre Limited |
| A.Grigson | Executive General Manager - Corporate | Flight Centre Limited |
| G.Hogan | Executive General Manager - Information Technology | Flight Centre Limited |
| R.Nath | Executive General Manager - India | FCm Travel Solutions India 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 |

All of the above were key management personnel during the year ended 30 June 2006. R.Hamilton and D.White were also key management personnel in the year ended 30 June 2006.

(c) Key management personnel compensation

| | Consolidated | | Pare | ent |
|------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 30 June 2007 \$ | 30 June 2006 \$ | 30 June 2007 \$ | 30 June 2006 \$ |
| Short-term employee benefits | 4,766,646 | 6,172,313 | 3,200,507 | 3,609,738 |
| Post-employment benefits | 596,734 | 839,861 | 523,988 | 819,636 |
| Share-based payments | 345,424 | 235,512 | 259,068 | 183,176 |
| Long-term benefits | 139,146 | 24,972 | 51,511 | 24,972 |
| | 5,847,950 | 7,272,658 | 4,035,074 | 4,637,522 |

The company has taken advantage of the relief provided by ASIC Information Release 06-03 2M.6.04 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 3 to 9.

(d) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D of the remuneration report on pages 9-10.

(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.

30 Key management personnel disclosures continued

| 2007 | Balance at | Granted as | | Expired or | Balance at | Vested and | | |
|--|-------------------|-------------------|-----------|------------|--------------------|-------------|----------|--|
| Name | start of the year | compen- sation | Exercised | forfeited | end of the year | exercisable | Unvested | |
| Executive and Non-Executive Directors of Flight C | entre Limited | | | | | | | |
| G.F.Turner | - | - | - | - | - | - | - | |
| P.F.Barrow | 20,000 | - | - | (10,000) | 10,000 | 10,000 | - | |
| G.L.Harris | - | - | - | - | - | - | - | |
| H.L.Stack | 20,000 | - | - | (10,000) | 10,000 | 10,000 | - | |
| B.R.Brown | - | - | - | - | - | - | - | |
| Other key management personnel of the group | | | | | | | | |
| M.Aponas | 40,000 | - | - | (10,000) | 30,000 | 10,000 | 20,000 | |
| D.Burns | - | - | - | - | - | - | - | |
| C.Galanty | 41,500 | - | - | (11,500) | 30,000 | 10,000 | 20,000 | |
| S.Garrett | 40,000 | - | - | (10,000) | 30,000 | 10,000 | 20,000 | |
| A.Grigson | 52,500 | - | - | (19,500) | 33,000 | 13,000 | 20,000 | |
| G.Hogan | 40,000 | - | - | (10,000) | 30,000 | 10,000 | 20,000 | |
| R.Nath | - | - | - | - | - | - | - | |
| S.O'Brien | 43,000 | - | - | (13,000) | 30,000 | 10,000 | 20,000 | |
| G.Pringle | 40,000 | - | - | (10,000) | 30,000 | 10,000 | 20,000 | |
| A.Slingsby | 50,500 | - | - | (20,500) | 30,000 | 10,000 | 20,000 | |
| K.Stanley | 53,500 | - | (10,000) | (43,500) | - | - | - | |
| A.Spence | - | - | - | - | - | - | - | |
| 2006 | Balance at | Granted as | | Expired or | Balance at | Vested and | | |

| 2006 Name | Balance at start of the year | Granted as compen- sation | Exercised | Expired or forfeited | Balance at end of the year | Vested and exercisable | Unvested |
|--|------------------------------------|---------------------------------|-----------|----------------------|----------------------------------|------------------------|----------|
| Executive and Non-Executive Directors of Flight Co | <u> </u> | Junion | | | you | | |
| G.F.Turner | - | - | - | - | - | - | - |
| P.F.Barrow 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 | 800 | - | - | (800) | - | - | - |
| B.R.Brown | - | - | - | - | - | - | - |
| Other key management personnel of the group | | | | | | | |
| M.Aponas | - | 40,000 | - | - | 40,000 | - | 40,000 |
| D.Burns | 2,210 | - | - | (2,210) | - | - | - |
| C.Galanty | 1,800 | 40,000 | - | (300) | 41,500 | 1,500 | 40,000 |
| S.Garrett | - | 40,000 | - | - | 40,000 | - | 40,000 |
| A.Grigson | 14,900 | 40,000 | - | (2,400) | 52,500 | 12,500 | 40,000 |
| R.Hamilton | 600 | - | - | - | 600 | - | 600 |
| G.Hogan | 3,000 | 40,000 | - | (3,000) | 40,000 | - | 40,000 |
| R.Nath | - | - | - | - | - | - | - |
| S.O'Brien | 3,000 | 40,000 | - | - | 43,000 | 3,000 | 40,000 |
| G.Pringle | - | 40,000 | - | - | 40,000 | - | 40,000 |
| A.Slingsby | 10,500 | 40,000 | - | - | 50,500 | 10,500 | 40,000 |
| K.Stanley | 16,500 | 40,000 | - | (3,000) | 53,500 | 13,500 | 40,000 |
| D.White | 200 | 40,000 | - | (200) | 40,000 | - | 40,000 |

(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.

30 Key management personnel disclosures continued

| 2007 | Dolomoo ok Hoo | Received during | Othor changes | Dolonge et the |
|--|---|-------------------------------------|----------------------------------|---|
| Name | Balance at the start of the year | the year on the exercise of options | Other changes during the year | Balance at the end of the year |
| Directors of Flight Centre Limited | | | | |
| Ordinary shares | | | | |
| G.F.Turner | 17,228,687 | - | - | 17,228,687 |
| P.F.Barrow | 80,800 | - | (8,715) | 72,085 |
| H.L.Stack | 42,288 | - | - | 42,288 |
| G.L.Harris | 16,262,357 | - | (1,864) | 16,260,493 |
| B.R.Brown | 5,000 | - | - | 5,000 |
| Other key management personnel of the group | | | | |
| Ordinary shares | | | | |
| M.Aponas | 892 | - | - | 892 |
| D.Burns | 785 | - | (785) | - |
| C.Galanty | 2,002 | - | - | 2,002 |
| S.Garrett | 3,142 | - | - | 3,142 |
| A.Grigson | 2,928 | - | - | 2,928 |
| G.Hogan | 30,000 | - | - | 30,000 |
| R.Nath | - | - | - | - |
| S.O'Brien | 3,000 | - | - | 3,000 |
| G.Pringle | 2,451 | - | 77 | 2,528 |
| A.Slingsby | 1,857 | - | - | 1,857 |
| K.Stanley | 8,955 | 10,000 | (18,955) | - |
| 2006 | Balance at the | Received during | Other changes | Dalaman akaba |
| | | | Utilei Cilaliues | Balance at the |
| Name | start of the year | the year on the exercise of options | during the year | Balance at the end of the year |
| Name Directors of Flight Centre Limited | | | | |
| | | | | |
| Directors of Flight Centre Limited | | | | |
| Directors of Flight Centre Limited Ordinary shares | start of the year | exercise of options | during the year | end of the year |
| Directors of Flight Centre Limited Ordinary shares G.F.Turner | start of the year 17,232,362 | exercise of options | during the year (3,675) | end of the year 17,228,687 |
| Directors of Flight Centre Limited Ordinary shares G.F.Turner P.F.Barrow | 17,232,362 80,800 | exercise of options | during the year (3,675) | 17,228,687 80,800 |
| Directors of Flight Centre Limited Ordinary shares G.F.Turner P.F.Barrow H.L.Stack | 17,232,362 80,800 42,288 | exercise of options | (3,675) | 17,228,687 80,800 42,288 |
| Directors of Flight Centre Limited Ordinary shares G.F.Turner P.F.Barrow H.L.Stack G.L.Harris | 17,232,362 80,800 42,288 | exercise of options | (3,675) - - 5,227 | 17,228,687 80,800 42,288 16,262,357 |
| Directors of Flight Centre Limited Ordinary shares G.F.Turner P.F.Barrow H.L.Stack G.L.Harris B.R.Brown | 17,232,362 80,800 42,288 | exercise of options | (3,675) - - 5,227 | 17,228,687 80,800 42,288 16,262,357 |
| Directors of Flight Centre Limited Ordinary shares G.F.Turner P.F.Barrow H.L.Stack G.L.Harris B.R.Brown Other key management personnel of the group | 17,232,362 80,800 42,288 | exercise of options | (3,675) - - 5,227 | 17,228,687 80,800 42,288 16,262,357 |
| Directors of Flight Centre Limited Ordinary shares G.F.Turner P.F.Barrow H.L.Stack G.L.Harris B.R.Brown Other key management personnel of the group Ordinary shares | 17,232,362 80,800 42,288 16,257,130 | exercise of options | (3,675) 5,227 5,000 | 17,228,687 80,800 42,288 16,262,357 5,000 |
| Directors of Flight Centre Limited Ordinary shares G.F.Turner P.F.Barrow H.L.Stack G.L.Harris B.R.Brown Other key management personnel of the group Ordinary shares M.Aponas | 17,232,362 80,800 42,288 16,257,130 | exercise of options | (3,675) 5,227 5,000 | 17,228,687 80,800 42,288 16,262,357 5,000 |
| Directors of Flight Centre Limited Ordinary shares G.F.Turner P.F.Barrow H.L.Stack G.L.Harris B.R.Brown Other key management personnel of the group Ordinary shares M.Aponas D.Burns | 17,232,362 80,800 42,288 16,257,130 - | exercise of options | (3,675) 5,227 5,000 | 17,228,687 80,800 42,288 16,262,357 5,000 892 785 2,002 |
| Directors of Flight Centre Limited Ordinary shares G.F.Turner P.F.Barrow H.L.Stack G.L.Harris B.R.Brown Other key management personnel of the group Ordinary shares M.Aponas D.Burns C.Galanty S.Garrett | 17,232,362 80,800 42,288 16,257,130 - 250 785 2,002 3,142 2,928 | exercise of options | (3,675) 5,227 5,000 | 17,228,687 80,800 42,288 16,262,357 5,000 892 785 2,002 3,142 |
| Directors of Flight Centre Limited Ordinary shares G.F.Turner P.F.Barrow H.L.Stack G.L.Harris B.R.Brown Other key management personnel of the group Ordinary shares M.Aponas D.Burns C.Galanty | 17,232,362 80,800 42,288 16,257,130 - 250 785 2,002 3,142 | exercise of options | (3,675) 5,227 5,000 | 17,228,687 80,800 42,288 16,262,357 5,000 892 785 2,002 3,142 2,928 |
| Directors of Flight Centre Limited Ordinary shares G.F.Turner P.F.Barrow H.L.Stack G.L.Harris B.R.Brown Other key management personnel of the group Ordinary shares M.Aponas D.Burns C.Galanty S.Garrett A.Grigson R.Hamilton | 17,232,362 80,800 42,288 16,257,130 - 250 785 2,002 3,142 2,928 | exercise of options | (3,675) 5,227 5,000 | 17,228,687 80,800 42,288 16,262,357 5,000 892 785 2,002 3,142 2,928 232 |
| Directors of Flight Centre Limited Ordinary shares G.F.Turner P.F.Barrow H.L.Stack G.L.Harris B.R.Brown Other key management personnel of the group Ordinary shares M.Aponas D.Burns C.Galanty S.Garrett A.Grigson R.Hamilton G.Hogan | 250 785 2,002 3,142 2,928 232 | exercise of options | (3,675) 5,227 5,000 | 17,228,687 80,800 42,288 16,262,357 5,000 892 785 2,002 3,142 2,928 232 |
| Directors of Flight Centre Limited Ordinary shares G.F.Turner P.F.Barrow H.L.Stack G.L.Harris B.R.Brown Other key management personnel of the group Ordinary shares M.Aponas D.Burns C.Galanty S.Garrett A.Grigson R.Hamilton G.Hogan R.Nath | 250 785 2,002 3,142 2,928 232 30,000 | exercise of options | (3,675) 5,227 5,000 | 892 785 2,002 3,142 2,928 30,000 |
| Directors of Flight Centre Limited Ordinary shares G.F.Turner P.F.Barrow H.L.Stack G.L.Harris B.R.Brown Other key management personnel of the group Ordinary shares M.Aponas D.Burns C.Galanty S.Garrett A.Grigson R.Hamilton G.Hogan R.Nath S.O'Brien | 250 785 2,002 3,142 2,928 232 30,000 | exercise of options | (3,675) 5,227 5,000 | 17,228,687 80,800 42,288 16,262,357 5,000 892 785 2,002 3,142 |
| Directors of Flight Centre Limited Ordinary shares G.F.Turner P.F.Barrow H.L.Stack G.L.Harris B.R.Brown Other key management personnel of the group Ordinary shares M.Aponas D.Burns C.Galanty S.Garrett A.Grigson | \$\text{start of the year}\$ 17,232,362 80,800 42,288 16,257,130 - 250 785 2,002 3,142 2,928 232 30,000 - 3,000 | exercise of options | (3,675) | 17,228,687 80,800 42,288 16,262,357 5,000 892 785 2,002 3,142 2,928 232 30,000 - 3,000 |

30 Key management personnel disclosures continued

(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 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 \$77,000 (2006: \$78,740).

31 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:

(a) Audit services

| | Consolidated | | Par | ent |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | 30 June 2007 \$ | 30 June 2006 \$ | 30 June 2007 \$ | 30 June 2006 \$ |
| PricewaterhouseCoopers Australian firm | | | | |
| Audit and review of financial reports | 878,000 | 597,759 | 878,000 | 597,759 |
| Other audit work under the Corporations Act 2001 | 21,928 | - | 21,928 | - |
| Related practices of PricewaterhouseCoopers Australian firm | 917,769 | 662,251 | - | - |
| Non-PricewaterhouseCoopers audit firms for the audit or review of financial reports of any entity in the group | 4,885 | 4,227 | - | - |
| Total remuneration for audit services | 1,822,582 | 1,264,237 | 899,928 | 597,759 |

(b) Non-audit services

| | Consol | Consolidated | | ent |
|---|-----------------------|-----------------------|-----------------------|---|
| | 30 June 2007 \$ | 30 June 2006 \$ | 30 June 2007 \$ | 30 June 2006 \$ |
| Audit-related services | | | | , in the second |
| PricewaterhouseCoopers Australian firm | | | | |
| Audit of regulatory returns | - | 17,301 | - | - |
| IFRS accounting services | 68,077 | 155,000 | 33,200 | 155,000 |
| Related practices of PricewaterhouseCoopers | | | | |
| Audit of regulatory returns | 17,372 | - | - | - |
| Due diligence services | 50,962 | 394,890 | - | - |
| Total remuneration for audit-related services | 136,411 | 567,191 | 33,200 | 155,000 |
| Taxation services | | | | |
| PricewaterhouseCoopers Australian firm | | | | |
| Tax compliance services | - | 16,000 | - | 16,000 |
| International tax consulting and tax advice on mergers and acquisitions | - | 9,832 | - | - |
| Related practices of PricewaterhouseCoopers Australia | | | | |
| Tax compliance services | 294,261 | 119,571 | 108,560 | - |
| International tax consulting and tax advice on mergers and acquisitions | 21,484 | - | - | - |
| Total remuneration for taxation services | 315,745 | 145,403 | 108,560 | 16,000 |
| Total remuneration for non-audit services | 452,156 | 712,594 | 141,760 | 171,000 |
| Total remuneration for audit and non-audit services | 2,274,738 | 1,976,831 | 1,041,688 | 768,759 |

31 Remuneration of auditors continued

The group's policy is to employ PricewaterhouseCoopers on assignments additional to its 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.

32 Contingencies

(a) Contingent liabilities

The parent entity and group had contingent liabilities at 30 June 2007 in respect of:

(i) 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. No liability was recognised by the parent entity or the consolidated entity in relation to these guarantees as the fair value of the guarantees is immaterial.

Standard industry operating practice requires the group to issue letters of credit to the International Air Transport Association for the benefit of the travelling public who are customers of offshore businesses. Australian customers are covered via Flight Centre Limited's 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.

33 Commitments

(i) Operating leases

| | Consolidated | | Parent | | | | |
|--|--------------|---------|---------|---------|--|--|--|
| | 30 June | 30 June | 30 June | 30 June | | | |
| | 2007 | 2006 | 2007 | 2006 | | | |
| | \$'000 | \$'000 | \$'000 | \$'000 | | | |
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | | | | | | |
| Within one year | 70,305 | 61,495 | 44,374 | 38,230 | | | |
| Later than one year but not later than five years | 192,128 | 148,755 | 109,357 | 81,283 | | | |
| Later than five years | 71,008 | 35,233 | 12,697 | 3,863 | | | |
| | 333,441 | 245,483 | 166,428 | 123,376 | | | |

The operating leases above relate primarily to occupancy leases of varying terms, generally between 5 and 7 years, and have escalation clauses and renewal rights. Not included in the above are contingent rental payments which generally represent rental escalation based on CPI.

34 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 36.

(c) Key management and personnel compensation

Disclosures relating to key management personnel are set out in the Directors' Report and note 30.

34 Related party transactions continued

(d) Transactions with related parties

The following transactions occurred with related parties:

| | Consolidated | | Par | ent |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| | 30 June 2007 \$'000 | 30 June 2006 \$'000 | 30 June 2007 \$'000 | 30 June 2006 \$'000 |
| Income from related subsidiaries | | | | |
| Royalties | - | - | 14,512 | 12,172 |
| Rent | - | - | 4,397 | 3,912 |
| Interest | - | - | 6,784 | 8,702 |
| Expenses to related subsidiaries | | | | |
| Management fees | - | - | 48,293 | 42,656 |
| Tax consolidation legislation | | | | |
| Current tax payable assumed from wholly-owned tax consolidated entities | - | - | 7,974 | 8,512 |
| Dividend revenue | | | | |
| Subsidiaries | - | - | 26,969 | 5,772 |

(e) Outstanding balances

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

| | Consolidated | | Parent | |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| | 30 June 2007 \$'000 | 30 June 2006 \$'000 | 30 June 2007 \$'000 | 30 June 2006 \$'000 |
| Current receivables (tax funding agreement) | | | | |
| Wholly-owned tax consolidated entities | - | - | 14,230 | 10,007 |

No provisions for doubtful debts have been raised in relation to any outstanding balances and no expenses have been recognised in respect of bad or doubtful debts due from related parties.

(f) Loans to/from related parties

| | Consolidated | | Parent | |
|-------------------------------------|--------------|---------|-----------|-----------|
| | 30 June | 30 June | 30 June | 30 June |
| | 2007 | 2006 | 2007 | 2006 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Loans to subsidiaries | | | | |
| Beginning of the year | - | - | 108,344 | 102,343 |
| Loans advanced | - | - | 845,836 | 510,944 |
| Loan repayments received | - | - | (791,618) | (513,645) |
| Loan forgiveness | - | - | (23,934) | - |
| Investment in existing subsidiaries | - | - | (136,143) | - |
| Interest | - | - | 6,784 | 8,702 |
| End of year | - | - | 9,269 | 108,344 |

No provisions for doubtful debts have been raised in relation to any outstanding balances. Throughout the year, intercompany loan balances between the parent entity and other Australian subsidiaries within the group were forgiven. This resulted in \$23,933,531 being taken to income in the profit and loss of the parent entity. Offsetting this was the associated expense in the profit and loss of subsidiaries of the parent entity.

34 Related party transactions continued

(g) Guarantees

The following guarantees have been given by the parent entity:

| | Consol | Consolidated | | Consolidated Parent | | ent |
|--------------------------|-----------------------|-----------------------|-----------------------|-----------------------|--|-----|
| | 30 June 2007 \$ | 30 June 2006 \$ | 30 June 2007 \$ | 30 June 2006 \$ | | |
| Secured | | | | | | |
| North America | - | - | 3,344,855 | 5,381,217 | | |
| Republic of South Africa | - | - | - | 1,384,990 | | |
| United Kingdom | - | - | 35,419 | 975,633 | | |
| Australia | - | - | 1,062,699 | - | | |
| Unsecured | | | | | | |
| North America | - | - | 6,552,354 | 2,464,178 | | |
| Republic of South Africa | - | - | - | 1,099,722 | | |
| United Kingdom | - | - | 67,522,749 | 42,864,210 | | |
| Hong Kong | - | - | 3,400,230 | 1,813,027 | | |
| China | - | - | 4,398,394 | 1,808,496 | | |
| New Zealand | - | - | 4,162,896 | 4,224,058 | | |
| Australia | - | - | 1,526,424 | - | | |
| | - | - | 92,006,020 | 62,015,531 | | |

These guarantees comprise of both the letter of credit facility and the multi-option facility. No liability was recognised by the parent entity or the consolidated entity in relation to these guarantees, as the fair value of the guarantees is immaterial.

(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.

35 Business combinations

Current year acquisitions

(a) Nationwide Currency Services Pty Limited

(i) Summary of acquisition

On 20 November 2006, the group acquired Nationwide Currency Services Pty Limited, a foreign exchange services company based in Perth.

The acquired business contributed net profit before tax of \$413,000 from 20 November 2006 to 30 June 2007. If the acquisition had occurred on 1 July 2006, the revenue and profit contribution for the year ended 30 June 2007 would have been \$2,504,000 and \$682,000 respectively.

These amounts have been calculated using the group's accounting policies and by adjusting the results of the acquisition to reflect the additional amortisation that would have been charged assuming the fair value adjustments to intangible assets had applied from 1 July 2006, together with the consequential tax effects.

35 Business combinations continued

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 | 2,805 |
| Deferred consideration | 800 |
| Direct costs relating to the acquisition | 106 |
| Total purchase consideration | 3,711 |
| Fair value of net identifiable assets acquired (refer to (iii) below) | 1,078 |
| Goodwill (refer to (iii) below and note 17) | 2,633 |

(ii) Purchase consideration

| | 200 <i>7</i> \$'000 |
|--|------------------------|
| Outflow of cash to acquire subsidiary: | |
| Cash consideration (including acquisition costs) | 2,911 |
| Less: Cash acquired | 722 |
| Outflow of cash | 2,189 |

Deferred consideration is payable to the previous owner of Nationwide Currency Services, who has taken up an employment position with Flight Centre Limited. The amount is payable irrespective of whether the previous owner continues employment with Flight Centre Limited.

(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 and cash equivalents | 722 | 722 |
| Prepayments | 20 | 20 |
| Plant and Equipment | 278 | 278 |
| Intangible assets | - | 95 |
| Payables | (2) | (2) |
| Provision for employee benefits | (35) | (35) |
| Net identifiable assets acquired | 983 | 1,078 |

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.

The accounting for this business has been determined only provisionally as additional consideration may be payable based on forecasted EBIT results. At the date of this financial report, the amount of additional consideration cannot be measured reliably and is not probable of payment, hence has not been brought to account as deferred consideration.

(b) Travel Spirit Group Pty Limited

(i) Summary of acquisition

On 3 March 2007, the parent acquired Travel Spirit Group Pty Limited, a travel wholesaler based in Sydney.

35 Business combinations continued

The acquired business contributed net profit of \$243,000 to the group for the period from 3 March 2007 to 30 June 2007. If the acquisition had occurred on 1 July 2006, the revenue and loss contributed for the year ended 30 June 2007 would have been \$58,796,000 and \$1,642,000 respectively. These amounts have been calculated using the group's accounting policies and by adjusting the results of the acquisition to reflect the additional amortisation that would have been charged assuming the fair value adjustments to intangible assets had applied from 1 July 2006, 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 | 10,000 |
| Direct costs relating to the acquisition | 131 |
| Total purchase consideration | 10,131 |
| Fair value of net identifiable assets acquired (refer to (iii) below) | 3,192 |
| Goodwill (refer to (iii) below and note 17) | 6,939 |

(ii) Purchase consideration

| | 2007 \$'000 |
|--|----------------|
| Outflow of cash to acquire subsidiary: | |
| Cash consideration (including acquisition costs) | 10,131 |
| Less: Cash acquired | 9,169 |
| Outflow of cash | 962 |

There was no deferred consideration in this acquisition.

(iii) Assets and liabilities acquired

| | Acquiree's carrying amount | Fair value |
|--|-------------------------------|------------|
| | \$'000 | \$'000 |
| Cash | 9,169 | 9,169 |
| Trade receivables | 182 | 182 |
| Prepayments | 567 | 567 |
| Deposits | 316 | 316 |
| Inventories | 316 | 316 |
| Plant and Equipment | 1,235 | 573 |
| Intangible assets: brands and customer relationships | - | 2,342 |
| Trade payables | (1,042) | (1,042) |
| Client creditors | (8,942) | (8,942) |
| Employee liabilities | (289) | (289) |
| Net assets | 1,512 | 3,192 |

The goodwill is attributable to potential synergies in wholesale product and benefits associated with the Calypso system's integration. The fair value of assets and liabilities acquired are based on book values with adjustments for intangible assets and plant and equipment where the fair value can be measured. No acquisition provisions were created.

35 Business combinations continued

(c) Comfort Business Travel Services Co.

(i) Summary of acquisition

On 1 July 2006 via its Flight Centre China Pty Ltd subsidiary, the group acquired an additional 45% shareholding in Comfort Business Travel Services Company Ltd, a travel agency operating in China. The group previously held an investment in the acquired business as a 50% joint venture partner. The group now holds a 95% controlling interest in the business.

The acquired business contributed revenues of \$1,633,000 and net loss before tax of \$1,335,000 to the group for the period from 1 July 2006 to 30 June 2007

This acquisition has been 100% consolidated with no accounting for the 5% minority interest, as the group has an option to purchase the final 5% at a fixed price (\$252,000) and this has been adjusted in goodwill and deferred consideration at 30 June 2007.

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 | 1,253 |
| Deferred consideration | 252 |
| Direct costs relating to the acquisition | 204 |
| Total purchase consideration | 1,709 |
| Fair value of net identifiable assets acquired | 336 |
| Goodwill | 1,373 |
| Goodwill 50% interest | 1,875 |
| Total Goodwill | 3,248 |

(ii) Purchase consideration

| | 2007 \$'000 |
|--|----------------|
| Outflow of cash to acquire subsidiary: | |
| Cash consideration (including acquisition costs) | 1,457 |
| Less: Cash acquired | 622 |
| Outflow of cash | 835 |

The goodwill is attributable to the Chinese market's high growth and profitability potential. 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:

35 Business combinations continued

| | Acquiree's carrying amount | Fair value |
|----------------------------------|----------------------------|------------|
| | \$'000 | \$'000 |
| Cash and cash equivalents | 622 | 622 |
| Receivables | 3,338 | 3,338 |
| Prepayments | 40 | 40 |
| Plant and Equipment | 292 | 292 |
| Payables | (1,190) | (1,190) |
| Loans - Bank | (1,693) | (1,693) |
| Loans - Other | (662) | (662) |
| Net identifiable assets acquired | 747 | 747 |

(d) Toni Brasch Event Management Pty Limited

(i) Summary of acquisition

On 28 February 2007, the group acquired Toni Brasch Event Management Pty Limited, a Sydney-based events management business.

The acquired business contributed a net loss of \$26,000 from 28 February 2007 until 30 June 2007. If the acquisition had occurred on 1 July 2006, the revenue and loss contributed for the year ended 30 June 2007 would have been \$568,000 and \$89,000 respectively.

These amounts have been calculated using the group's accounting policies and by adjusting the results of the acquisition to reflect the additional amortisation that would have been charged assuming the fair value adjustments to intangible assets had applied from 1 July 2006, 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 | 653 |
| Deferred consideration | 214 |
| Direct costs relating to the acquisition | 27 |
| Total purchase consideration | 894 |
| Fair value of net identifiable assets acquired (refer to (iii) below) | 84 |
| Goodwill (refer to (iii) below and note 17) | 810 |

(ii) Purchase consideration

| | 2007 \$'000 |
|--|----------------|
| Outflow of cash to acquire subsidiary: | |
| Cash consideration (including acquisition costs) | 680 |
| Less: Cash acquired | - |
| Outflow of cash | 680 |

The deferred consideration is in relation to payments based on future profits. The payments are probable and can be measured reliably, hence have been included in the cost of the acquisition.

35 Business combinations continued

(iii) Assets and liabilities acquired

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

| | Acquiree's carrying amount | Fair value |
|----------------------------------|----------------------------|------------|
| | \$'000 | \$'000 |
| Prepayments | 11 | 11 |
| Plant and Equipment | 47 | 47 |
| Intangible assets | - | 37 |
| Payables | (10) | (11) |
| Net identifiable assets acquired | 48 | 84 |

The goodwill is attributable to TBEM's network of customers and suppliers and the synergy that is expected to contribute to the future profitability of the CiEvents business. The fair value of assets and liabilities acquired is based on discounted cash flow models. No acquisition provisions were created.

Prior year acquisitions

(a) FCm Travel Solutions India Ltd (formerly known as Friends Globe Travels Ltd)

(i) Summary of acquisition

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

The acquired business contributed revenues of \$14,500,000 and net profit of \$2,400,000 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 | 18,752 |
| Fair value of net identifiable assets acquired (refer to (iii) below) | 3,562 |
| Goodwill (refer to (iii) below and note 17) | 15,190 |

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

| | 2006 \$'000 |
|--|----------------|
| Outflow of cash to acqured subsidiaries: | |
| Cash consideration (including acquisition costs) | 7,946 |
| Less: Cash acquired | 1,047 |
| Outflow of cash | 6,899 |

35 Business combinations continued

The goodwill is attributable to the acquired business's high profitability 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:

| | 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) |
| Net identifiable assets acquired | 3,174 | 3,562 |

(b) Bannockburn Travel Management

(i) Summary of acquisition

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

The acquired business contributed revenues of \$2,600,000 and net profit of \$30,000 to the group for the period from 1 March 2006 to 30 June 2006. If the acquisition had occurred on 1 July 2005, revenue and profit contributed 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 |
| Total purchase consideration | 14,504 |
| Fair value of net identifiable assets acquired (refer to (iii) below) | 3,140 |
| Goodwill (refer to (iii) below and note 17) | 11,364 |

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

35 Business combinations continued

(ii) Purchase consideration

| | 2006 \$'000 |
|--|----------------|
| Outflow of cash to acquire subsidiary: | |
| Cash consideration (including acquisition costs) | 13,524 |
| Less: Cash acquired | 1,458 |
| Outflow of cash | 12,066 |

(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) |
| Net identifiable assets acquired | 1,110 | 3,140 |

The goodwill is attributable to the acquired business's high profitability. 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 for cash consideration of \$1,378,486. The loss on disposal of the group was \$757,781.

36 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 | |
|--|--------------------------|-----------------|----------------|------------------|
| | | | 2007 % | 2006 % |
| BDI Solutions Pty Ltd | Australia | Ordinary | 100 | 100 |
| Escape Travel Franchising Pty Ltd | Australia | Ordinary | 100 | 100 |
| Flight Centre (China) Pty Ltd | Australia | Ordinary | 95 | 50 |
| Flight Centres (New South Wales) Pty Ltd | Australia | Ordinary | 100 | 100 |
| Flight Centre Technology Pty Ltd * | Australia | Ordinary | 100 | 100 |
| Frequent Flyers Pty Ltd * | Australia | Ordinary | 100 | 100 |
| The Great Holiday Escape Pty Ltd | Australia | Ordinary | 100 | 100 |
| Globalnet Technologies Pty Ltd | Australia | Ordinary | 100 | 100 |
| Group and Conference Travel Pty Ltd | Australia | Ordinary | 100 | 100 |
| GTM Internet Travel Pty Ltd | Australia | Ordinary | 100 | 100 |
| GTM Travel Australia Pty Ltd | Australia | Ordinary | 100 | 100 |

36 Subsidiaries continued

| Name of entity continued | of entity continued Country of incorporation Class of shares | Equity holding | | |
|---|--|----------------|------|------|
| | | | 2007 | 2006 |
| Infinity Holidaya Phy Ltd | Australia | Ordinory | 100 | 100 |
| Infinity Holidays Pty Ltd | Australia Australia | Ordinary | 100 | 100 |
| Internet E. Travel Pty Ltd | | Ordinary | 100 | 100 |
| Internet Travel Australia Pty Ltd | Australia | Ordinary | 100 | 100 |
| Intravel Group Pty Ltd | Australia | Ordinary | 100 | 100 |
| Australian OpCo Pty Ltd (formerly FCm Travel Solutions Pty Ltd) * | Australia | Ordinary | 100 | 100 |
| ITL Overseas Holdings Pty Ltd | Australia | Ordinary | 100 | 100 |
| Lumina Marketing Pty Ltd | 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 and Screen Travel and Freight Services Pty Ltd * | Australia | Ordinary | 100 | 100 |
| Traveland Pty Ltd | Australia | Ordinary | 100 | 100 |
| Nationwide Currency Services 2 Pty Ltd | Australia | Ordinary | 100 | - |
| Australian AssetCo Pty Ltd | Australia | Ordinary | 100 | - |
| Travel Services Corporation Pty Ltd | Australia | Ordinary | 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 |
| GCH Services Limited | Hong Kong | Ordinary | 100 | - |
| CH Services Limited | Hong Kong | Ordinary | 100 | - |
| FCm Travel Solutions India Ltd (formerly Friends Globe Travels Ltd) # | Republic of India | Ordinary | 100 | 100 |
| Flight Centre (Mauritius) Limited | Mauritius | Ordinary | 100 | 100 |
| Flight Centre (NZ) Limited | New Zealand | Ordinary | 100 | 100 |
| Great Holiday Escape (NZ) Limited | New Zealand | Ordinary | 100 | 100 |
| Escape Travel Limited | New Zealand | Ordinary | 100 | 100 |
| FFA Limited | New Zealand | Ordinary | 100 | 100 |
| Flight Centre (South Africa) Pty Ltd | Republic of South Africa | Ordinary | 100 | 100 |
| Flight Centre Travel Solutions Pty Ltd | Republic of South Africa | Ordinary | 100 | 100 |
| Britannic Travel Limited | United Kingdom | Ordinary | 100 | 100 |
| Britannic Travel Solutions Limited | United Kingdom | Ordinary | 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) Operations Limited (formerly Flight Centre (UK) Holdings Limited) | United Kingdom | Ordinary | 100 | 100 |
| Student Flights (UK) Limited | United Kingdom | Ordinary | 100 | 100 |
| Flight Centre Moneywise Limited (UK) | United Kingdom | Ordinary | 100 | - |
| Flight Centre (USA) Inc | USA | Ordinary | 100 | 100 |
| FCm Bannockburn LLC | USA | Ordinary | 100 | 100 |
| Flight Centre (ME) Limited | Jebel Ali Free Zone | Ordinary | 100 | - |
| FCm Travel Solutions (L.L.C) | Dubai | Ordinary | 100 | - |

36 Subsidiaries continued

- * 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 43.
- # All entities have a 30 June year-end date except for Friends Globe Travels Limited (31 March), American International Travel Limited (31 December) and Flight Centre Comfort Business Travel Services Co Ltd (31 December). These entities are required to have these year-end dates due to local statutory reporting requirements. These entities are consolidated into the group's 30 June year-end using their monthly figures from July to June.

37 Events occurring after the balance sheet date

On 30 July 2007 Flight Centre (NZ) Limited entered into a contract to purchase 127 Vincent Street, Auckland, New Zealand for NZ \$12m.

Other than this matter noted above, no circumstance has arisen since 30 June 2007 that has significantly affected, or may significantly affect:

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

38 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. The group is organised globally into major areas. Its primary reporting format is geographical segments.

(b) Primary reporting format – geographical segments

| 2007 | Australia | New Zealand | United Kingdom | Other | Total continuing operations | Inter- segment eliminations/ unallocated | Consolidated |
|---|-----------|----------------|-------------------|-----------|-----------------------------------|---|--------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Total Transaction Value | 5,448,836 | 677,834 | 1,155,582 | 1,637,787 | 8,920,039 | (46,417) | 8,873,622 |
| Sales to external customers | 707,071 | 85,830 | 146,407 | 181,126 | 1,120,434 | - | 1,120,434 |
| Intersegment sales (note (ii)) | 44,364 | 542 | 4,066 | 831 | 49,803 | (49,803) | - |
| Total sales revenue | 751,435 | 86,372 | 150,473 | 181,957 | 1,170,237 | (49,803) | 1,120,434 |
| Share of net profits of associates (note (iii)) | - | - | - | 219 | 219 | - | 219 |
| Unallocated revenue | | | | | | | 53,121 |
| Total segment revenue/income | | | | | | | 1,173,774 |
| Segment result pre royalties | 105,337 | 7,522 | 16,944 | 19,504 | 149,307 | (1,343) | 147,964 |
| Royalties | 14,512 | (4,181) | - | (10,331) | - | - | - |
| Segment result | 119,849 | 3,341 | 16,944 | 9,173 | 149,307 | (1,343) | 147,964 |
| Unallocated revenue less unallocated expenses | | | | | | | 26,057 |
| Profit before income tax | | | | | | | 174,021 |
| Income tax expense | | | | | | | (53,197) |
| Profit for the year | | | | | | | 120,824 |
| Segment assets | 758,802 | 91,407 | 262,168 | 195,338 | 1,307,715 | (81,113) | 1,226,602 |
| Unallocated assets | | | | | | | 30,684 |
| Total assets | | | | | | | 1,257,286 |
| Segment liabilities | 377,856 | 69,185 | 135,510 | 95,185 | 677,736 | (5,189) | 672,547 |
| Unallocated liabilities | | | | | | | 102,750 |
| Total liabilities | | | | | | | 775,297 |
| Investments in associates and joint venture partnership (note (iii)) | - | - | - | 8,472 | 8,472 | - | 8,472 |
| Acquisitions of property, plant and equipment, intangibles and other non-current segment assets | 40,487 | 3,963 | 4,448 | 15,326 | 64,224 | - | 64,224 |
| Depreciation and amortisation expense | 21,207 | 2,921 | 4,325 | 7,403 | 35,856 | 306 | 36,162 |
| Impairment of assets (note 17) | 4,643 | 242 | - | - | 4,885 | - | 4,885 |
| Other non-cash expenses | 11,930 | 1,848 | 1,203 | 2,801 | 17,782 | 1,006 | 18,788 |

38 Segment information continued

| 2006 | Australia | New Zealand | United Kingdom | Other | Total continuing operations | Inter- segment eliminations/ unallocated | Consolidated |
|---|-----------|----------------|-------------------|-----------|-----------------------------------|---|--------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Total Transaction Value | 4,884,942 | 657,733 | 961,746 | 1,323,475 | 7,827,896 | (18,633) | 7,809,263 |
| Sales to external customers | 608,459 | 84,148 | 127,145 | 153,959 | 973,711 | - | 973,711 |
| Intersegment sales (note (ii)) | 26,338 | 711 | 3,486 | 2,618 | 33,153 | (33,153) | - |
| Total sales revenue | 634,797 | 84,859 | 130,631 | 156,577 | 1,006,864 | (33,153) | 973,711 |
| Share of net profits of associates and joint venture partnership (note (iii)) | - | - | - | (463) | (463) | - | (463) |
| Unallocated revenue | | | | | | | 29,488 |
| Total segment revenue/income | | | | | | | 1,002,736 |
| Segment result pre royalties | 72,834 | 9,003 | 14,511 | 12,234 | 108,582 | (851) | 107,731 |
| Royalties | 12,173 | (5,675) | - | (6,471) | 27 | (27) | - |
| Segment result | 85,007 | 3,328 | 14,511 | 5,763 | 108,609 | (878) | 107,731 |
| Unallocated revenue less unallocated expenses | | | | | | | 11,674 |
| Profit before income tax | | | | | | | 119,405 |
| Income tax expense | | | | | | | (39,913) |
| Profit for the year | | | | | | | 79,492 |
| Segment assets | 582,199 | 78,677 | 222,391 | 159,408 | 1,042,675 | (29,671) | 1,013,004 |
| Unallocated assets | | | | | | | 19,011 |
| Total assets | | | | | | | 1,032,015 |
| Segment liabilities | 286,457 | 52,224 | 117,848 | 83,736 | 540,265 | 7,482 | 547,747 |
| Unallocated liabilities | | | | | | | 76,206 |
| Total liabilities | | | | | | | 623,953 |
| Investments in associates and joint venture partnership (note (iii)) | 2,248 | - | - | - | 2,248 | - | 2,248 |
| Acquisitions of property, plant and equipment, intangibles and other non-current segment assets | 13,925 | 2,344 | 4,457 | 46,884 | 67,610 | - | 67,610 |
| Depreciation and amortisation expense | 20,362 | 2,772 | 3,571 | 7,081 | 33,786 | 2,700 | 36,486 |
| Other non-cash expenses | 7,309 | 1,417 | 1,712 | 1,446 | 11,884 | (778) | 11,106 |

38 Segment information continued

(c) Notes to and forming part of the segment information

(i) Accounting policies

Segment information is prepared in conformity with the entity's accounting policies as disclosed in note 1 and accounting standard AASB 114 Segment Reporting.

Segment revenues, expenses, assets and liabilities are directly attributable to a segment and the relevant portion that can be reasonably allocated to the segment. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, inventories, property, plant and equipment and goodwill and other intangible assets, net of related provisions. While most of these assets can be directly attributable to individual segments, the carrying amounts of certain assets used jointly by segments are allocated based on reasonable estimates of usage. Segment liabilities consist primarily of trade and other creditors, employee benefits and provision for service warranties. 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.

39 Reconciliation of profit after income tax to net cash inflow from operating activities

| | Consol | dated Pare | | ent |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| | 30 June 2007 \$'000 | 30 June 2006 \$'000 | 30 June 2007 \$'000 | 30 June 2006 \$'000 |
| Profit for the year | 120,824 | 79,492 | 140,988 | 57,788 |
| Depreciation and amortisation | 36,162 | 36,486 | 12,616 | 13,230 |
| Impairment charge | 4,885 | - | 313 | - |
| Net loss/(gain) on disposal of non-current assets | (21,280) | 1,933 | (21,832) | 473 |
| Gain on intercompany debt forgiveness | - | - | (23,934) | - |
| Share of profits of associates and joint venture partnership not received as dividends or distributions | (219) | 463 | - | - |
| Non cash financing costs | 1,431 | 2,814 | - | - |
| Net exchange differences | - | (4,057) | - | - |
| Decrease (increase) in trade debtors and bills of exchange | (48,901) | (33,787) | (19,116) | 31,255 |
| Decrease (increase) in deferred tax assets | (3,815) | 4,366 | (3,820) | 5,366 |
| Decrease (increase) in related party loans | - | - | - | (28,468) |
| Increase (decrease) in trade creditors and other payables | 127,461 | 41,409 | 76,159 | - |
| Increase (decrease) in provision for income taxes payable | 11,910 | (6,207) | 20,887 | (6,332) |
| Increase (decrease) in provision for deferred income tax | (245) | (647) | - | - |
| Increase (decrease) in other provisions | 2,285 | 595 | 1,667 | 864 |
| Increase (decrease) in equity | 113 | 114 | 113 | 114 |
| Net cash inflow from operating activities | 230,611 | 122,974 | 184,041 | 74,290 |

40 Earnings per share

(a) Basic earnings per share

| | Consol | idated |
|---|---------|---------|
| | 30 June | 30 June |
| | 2007 | 2006 |
| | Cents | Cents |
| Profit attributable to the ordinary equity holders of the company | 127.5 | 84.6 |

(b) Diluted earnings per share

| | Consol | idated |
|---|---------|---------|
| | 30 June | 30 June |
| | 2007 | 2006 |
| | Cents | Cents |
| Profit attributable to the ordinary equity holders of the company | 127.5 | 84.5 |

(c) Reconciliations of earnings used in calculating earnings per share

| | Consol | idated |
|--|---------|---------|
| | 30 June | 30 June |
| | 2007 | 2006 |
| | \$'000 | \$'000 |
| Profit attributable to the ordinary equity holders of the company used in calculating basic and diluted earnings per share | 120,824 | 79,492 |

(d) Weighted average number of shares used as the denominator

| | Consol | idated |
|--|------------|------------|
| | 30 June | 30 June |
| | 2007 | 2006 |
| | Number | Number |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 94,471,035 | 94,471,035 |
| Adjustments for calculation of diluted earnings per share: | | |
| Options | 280,000 | 400,000 |
| Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share | 94,751,035 | 94,871,035 |

Options granted to employees under the Flight Centre Limited Senior Executive 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 41.

41 Share-based payments

(a) Employee Option Plan and Senior Executive Option Plan

Options are granted under the Flight Centre Limited Employee Option Plan which was established in October 1997 (amended 31 October 2002) and the Senior Executive Option Plan (established March 2006). The group's employees and directors (excluding Messrs Turner and Harris) are eligible to participate in the plan. Options may be granted to employees at the Board's discretion. Directors have elected not to participate in the plans.

Options are granted under the plans for no consideration and are exercisable over fully paid issued 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.

41 Share-based payments continued

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

- (1) The total group profit target to be met; and
- (2) 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 | Exercised during the year | Forfeited during the year | Expired during the year | Balance at end of the year | Vested and exercisable at end of the year |
|--------------------------------|-------------|-------------------|------------------------------------|---------------------------------|---------------------------------|-------------------------------|----------------------------------|--|
| | | | Number | Number | Number | Number | Number | Number |
| Consolidated and parent - 2007 | | | | | | | | |
| 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 | - | (3,000) | - | 9,000 | 9,000 |
| 31/10/02 | 31/10/07 | \$23.73 | 40,000 | - | (20,000) | - | 20,000 | 20,000 |
| 14/07/03 | 14/07/08 | \$22.46 | 19,800 | - | (9,000) | - | 10,800 | 10,800 |
| 30/03/06 * | 30/03/11 | \$10.66 | 400,000 | (10,000) | (110,000) | - | 280,000 | 90,000 |
| Total | | | 1,030,750 | (10,000) | (142,000) | (558,950) | 319,800 | 129,800 |
| Weighted average exercise pric | е | | \$21.07 | \$10.66 | \$13.62 | \$28.12 | \$12.38 | \$14.89 |
| Grant Date | Expiry date | Exercise price | Balance at start of the year | Granted during the year | Exercised during the year | Expired during the year | Balance at end of the year | Vested and exercisable at end of the year |
| | | | Number | Number | Number | Number | Number | Number |
| Consolidated and parent - 2006 | i | | | | | | | |
| 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 | 9,000 |
| 31/10/02 | 31/10/07 | \$23.73 | 40,000 | - | - | - | 40,000 | 20,000 |
| 21/01/01 | 21/01/06 | \$19.69 | 24,789 | - | - | (24,789) | - | - |
| 14/07/03 | 14/07/08 | \$22.46 | 19,800 | - | - | - | 19,800 | 10,800 |
| 30/03/06 * | 30/03/11 | \$10.66 | - | 400,000 | - | - | 400,000 | - |
| Total | | | 890,481 | 400,000 | - | (259,731) | 1,030,750 | 39,800 |
| Weighted average exercise pric | e | | \$25.52 | \$10.66 | - | \$20.29 | \$21.07 | \$24.44 |

The weighted average remaining contractual life of share options outstanding at the end of the period was 3.35 years (2006 2.08 years).

^{*} Senior Executive Option Plan

41 Share-based payments continued

Fair value of options granted

There were no options granted for the year ended 30 June 2007. The assessed fair value at grant date of options granted during the year ended 30 June 2006 was \$1.96. The fair value at grant date is 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, have a three-year life, and 50% of each tranche vests and is exercisable after each of the first two anniversaries of the date of grant
- (b) exercise price: \$3.18 (2006 \$2.78)
- (c) grant date: 1 May 2006 (2006 1 May 2006)
- (d) expiry date: 30 April 2012 (2006 30 April 2011)
- (e) share price at grant date: \$3.18 (2006 \$2.78)
- (f) expected price volatility of the company's shares: 35% (2006 30%)
- (g) expected dividend yield: 3.8% (2006 3.2%)
- (h) risk-free interest rate: 6% (2006 5.5%).

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

(b) 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:

| | Consol | idated | Par | ent |
|-----------------------------|---------|---------|---------|---------|
| | 30 June | 30 June | 30 June | 30 June |
| | 2007 | 2006 | 2007 | 2006 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Share-based payment expense | 432 | 416 | 432 | 416 |

42 Investments in associates

(a) Carrying amounts

Information relating to associates is set out below.

| Name of company | Principal activity | Ownershi | p interest | Consolidated | | Pare | ent |
|-----------------|--------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | | 30 June 2007 | 30 June 2006 | 30 June 2007 | 30 June 2006 | 30 June 2007 | 30 June 2006 |
| Unlisted | | % | % | \$'000 | \$'000 | \$'000 | \$'000 |
| Garber Pty Ltd | Travel Services | 26 | - | 8,472 | - | - | - |

The above associate is incorporated in the United States of America.

(b) Movements in carrying amounts

| | Consoli | dated |
|--|---------|---------|
| | 30 June | 30 June |
| | 2007 | 2006 |
| | \$'000 | \$'000 |
| Carrying amount at the beginning of the financial year | - | - |
| Additions | 8,253 | - |
| Share of profits after income tax | 219 | - |
| Carrying amount at the end of the financial year | 8,472 | - |

(c) Share of associates' profits or losses

| | Consoli | dated |
|--------------------------|---------|---------|
| | 30 June | 30 June |
| | 2007 | 2006 |
| | \$'000 | \$'000 |
| Profit before income tax | 396 | - |
| Income tax expense | (177) | - |
| Profit after income tax | 219 | - |

(d) Summarised financial information of associates

| 2007 | Group's share of: | | | |
|----------------|-------------------|-----------------------|--------------------|------------------|
| | Assets \$'000 | Liabilities \$'000 | Revenues \$'000 | Profit \$'000 |
| Garber Pty Ltd | 3,082 | 696 | 3,571 | 219 |

42 Investments in associates continued

| | Consol | Consolidated | |
|---|-----------------|-----------------|--|
| | 30 June 2007 | 30 June 2006 | |
| | \$'000 | \$'000 | |
| (e) Share of associates' expenditure commitments, other than for the supply of inventories | | | |
| Capital commitments | - | - | |
| Lease commitments | 2,051 | - | |
| (f) Contingent liabilities of associates | | | |
| Share of contingent liabilities incurred jointly with other investors | - | - | |
| Contingent liabilities relating to liabilities of the associate for which the company is severally liable | - | - | |

43 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) Australian OpCo Pty Ltd, Frequent Flyers Pty Ltd and Stage and Screen Travel and 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 are consolidated income statements and summary of movements in consolidated retained profits for the year ended 30 June 2007 comprising the company and the subsidiaries listed above.

43 Deed of Cross Guarantee continued

| | | Flight Centre Limited and Australian OpCo Pty Ltd | | Flight Centre Limited and Flight Centre Technology Pty Ltd | |
|---|----------------|--|----------------|---|--|
| | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 | |
| Income statement | | | | | |
| Revenue from the sale of travel services | 707,508 | 614,995 | 606,384 | 518,152 | |
| Other revenue | 70,908 | 44,640 | 69,073 | 48,438 | |
| Other income | 46,374 | 6,286 | 70,301 | 6,286 | |
| Selling expenses | (537,350) | (467,754) | (436,001) | (403,876) | |
| Administration/support expenses | (142,976) | (82,481) | (93,064) | (71,402) | |
| Finance costs | (12,576) | (11,251) | (10,835) | (10,478) | |
| Profit before income tax expense | 131,888 | 104,435 | 205,858 | 87,120 | |
| Income tax expense | (44,294) | (30,293) | (37,178) | (25,903) | |
| Profit for the year | 87,594 | 74,142 | 168,680 | 61,217 | |
| Summary of movements in consolidated retained profits | | | | | |
| Retained profits at the beginning of the financial year | 152,171 | 111,075 | 94,626 | 80,163 | |
| Adjustment for correction of error | - | (1,363) | - | (1,363) | |
| Transfer to retained profits on assumption of entities to the class order | - | 13,708 | - | - | |
| Profit from ordinary activities after income tax expense | 87,594 | 74,142 | 168,680 | 61,217 | |
| Dividends provided for or paid | (49,125) | (45,391) | (49,125) | (45,391) | |
| Retained profits at the end of the financial year | 190,640 | 152,171 | 214,181 | 94,626 | |

Set out below is the consolidated balance sheet as at 30 June 2007 of the company and the subsidiaries listed above.

43 Deed of Cross Guarantee continued

| | | Flight Centre Limited and Australian OpCo Pty Ltd | | Flight Centre Limited and Flight Centre Technology Pty Ltd | |
|--|----------------|--|----------------|---|--|
| | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 | |
| Current assets | 3 000 | | \$ 000 | \$ 000 | |
| Cash and cash equivalents | 264,995 | 141,931 | 274,711 | 123,263 | |
| Available-for-sale financial assets | 150,599 | 170,627 | 150,599 | 165,818 | |
| Receivables | 153,520 | 249,112 | 109,126 | 234,087 | |
| Current tax receivables | - | 4,291 | - | 2,870 | |
| Assets of disposal group classified as held-for-sale | - | 12,179 | - | 12,179 | |
| Total current assets | 569,114 | 578,140 | 534,436 | 538,217 | |
| Non-current assets | | | | | |
| Property, plant and equipment | 39,950 | 34,068 | 47,108 | 41,762 | |
| Intangible assets | 21,953 | 43,151 | 22,993 | 14,331 | |
| Deferred tax assets | 11,080 | 7,050 | 11,048 | 7,313 | |
| Other financial assets | 265,762 | 111,160 | 290,823 | 154,246 | |
| Total non-current assets | 338,745 | 195,429 | 371,972 | 217,652 | |
| Total assets | 907,859 | 773,569 | 906,408 | 755,869 | |
| Current liabilities | | | | | |
| Payables | 367,811 | 292,038 | 342,988 | 263,956 | |
| Borrowings | 26,754 | 26,518 | 26,754 | 93,334 | |
| Provisions | 3,641 | 3,356 | 3,641 | 3,356 | |
| Current tax liabilities | 16,595 | - | 16,595 | - | |
| Total current liabilities | 414,801 | 321,912 | 389,978 | 360,646 | |
| Non-current liabilities | | | | | |
| Payables | 5,035 | 3,883 | 4,821 | 3,883 | |
| Borrowings | 27,000 | 27,000 | 27,000 | 27,000 | |
| Deferred tax liabilities | 20 | - | - | - | |
| Provisions | 9,724 | 8,342 | 9,724 | 8,342 | |
| Total non-current liabilities | 41,779 | 39,225 | 41,545 | 39,225 | |
| Total liabilities | 456,580 | 361,137 | 431,523 | 399,871 | |
| Net assets | 451,279 | 412,432 | 474,885 | 355,998 | |
| Equity | | | | | |
| Contributed equity | 260,827 | 260,715 | 260,827 | 260,715 | |
| Reserves | (188) | (454) | (123) | 657 | |
| Retained profits | 190,640 | 152,171 | 214,181 | 94,626 | |
| Total equity | 451,279 | 412,432 | 474,885 | 355,998 | |

44 Correction of error

(a) Correction of error in recording lease liabilities

During the group's transition to Australian Equivalents to International Financial Reporting Standards, a number of adjustments to recognise payments under shop operating leases on a straight-line basis over the term of the lease were not correctly recorded. Due to this error, the consolidated liabilities recorded as at 1 July 2005 for straight-line leasing adjustments were understated by \$3,434,000 (parent entity \$1,947,000).

As at 30 June 2006, this error had the effect of understating consolidated payables and consolidated total liabilities by \$4,031k (parent entity \$2,488k), the consolidated deferred tax asset and consolidated total assets by \$1,209k (parent entity \$746k) and overstating consolidated retained earnings and consolidated total equity by \$2,822k (parent entity \$1,742k).

For the year ended 30 June 2006, the error also had the effect of overstating consolidated profit before income tax by \$597k (parent entity \$542k), consolidated income tax expense by \$179k (parent entity \$163k) and consolidated profit after tax by \$418k (parent entity \$379k) for the year ended 30 June 2006.

The error has been corrected by restating each of the affected financial statement line items for the prior year, as described above.

There is no impact on basic or diluted earnings per share presented in the financial statements.

(b) Variation from preliminary financial report

Subsequent to the release of the company's preliminary report to the Securities Exchange, the group made the above adjustment in relation to straight-line leasing adjustments.

Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 15 to 82 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 consolidated entity's financial position as at 30 June 2007 and of its performance 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 3 to 10 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 43 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 43.

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 31 August 2007



PricewaterhouseCoopers ABN 52 780 433 757

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Independent auditor's report to the members of Flight Centre Limited

Report on the financial report and AASB 124 remuneration disclosures contained in the Directors' Report

We have audited the accompanying financial report of Flight Centre Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Flight Centre Limited and its subsidiaries. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the Directors' Report. As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives (''remuneration disclosures"), required by Accounting Standard AASB 124 Related Party Disclosures, under the heading ''remuneration report" in pages 3 to 9 of the Directors' Report and not in the financial report.

Directors' responsibility for the financial report and the AASB 124 remuneration disclosures contained in the Directors' Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The directors of the company are also responsible for the remuneration disclosures contained in the Directors' Report.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is to also express an opinion on the remuneration disclosures contained in the Directors' Report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the Directors' Report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the Directors' Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the Directors' Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

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Audit Report continued

Independent auditor's report to the members of Flight Centre Limited continued

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

For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Matters relating to the electronic presentation of the reviewed financial report

This audit report relates to the financial report and remuneration disclosures of Flight Centre Limited (the Group) for the financial year ended Saturday, 30 June 2007 included on the Flight Centre Limited website. The company's directors are responsible for the integrity of the Flight Centre Limited website. We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report and remuneration disclosures identified above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or remuneration disclosures. 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 financial report and remuneration disclosures to confirm the information included in the audited financial report and remuneration disclosures presented on this web site.

Independence

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

Auditor's opinion on the financial report

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In our opinion,

- (a) the financial report of Flight Centre Limited is in accordance with the Corporations Act 2001, including
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at Saturday, 30 June 2007 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1(a).

Auditor's opinion on the AASB 124 remuneration disclosures contained in the directors' report

In our opinion the remuneration disclosures that are contained in pages 3 to 11 of the directors' report comply with Accounting Standard AASB 124.

PricewaterhouseCoopers

Robert Boker

R A Baker Partner

BRISBANE

31 August 2007

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Shareholder Information

The shareholder information set out below was applicable at 28 August 2007.

A Distribution of equity securities

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

| | Number of Shareholders |
|------------------|---------------------------|
| 1 – 1,000 | 8,227 |
| 1,001 – 5,000 | 2,121 |
| 5,001 – 10,000 | 256 |
| 10,001 – 100,000 | 140 |
| 100,001 and over | 32 |
| | 10,776 |

There were 677 holders of less than a marketable parcel of ordinary shares.

The 20 largest shareholders held 90.90% of the company's ordinary shares.

B Equity security holders

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

| Name | Ordinary | Ordinary shares | |
|--|-------------|-----------------------------|--|
| | Number held | Percentage of issued shares | |
| Gainsdale Pty Ltd | 17,058,077 | 18.06 | |
| Gehar Pty Ltd | 16,248,302 | 17.20 | |
| James Management Services Pty Ltd | 13,539,750 | 14.33 | |
| Lazard (Institutional Group) | 10,463,456 | 11.08 | |
| Friday Investments Pty Ltd | 6,724,502 | 7.12 | |
| National Nominees Ltd | 5,783,862 | 6.12 | |
| Chase Manhattan Nominees Ltd | 5,207,669 | 5.51 | |
| HSBC Custody Nominees (Australia) Ltd | 2,378,143 | 2.52 | |
| Citicorp Nominees Pty Ltd | 1,709,398 | 1.81 | |
| ANZ Nominees Ltd | 1,576,195 | 1.67 | |
| Cogent Nominees Pty Ltd | 1,412,079 | 1.49 | |
| Trinity Holding Ltd | 961,833 | 1.02 | |
| Citicorp Nominees Pty Ltd (Commonwealth Bank off Super a/c) | 540,810 | 0.57 | |
| HSBC Custody Nominees (Australia) Ltd (a/c 3) | 407,135 | 0.43 | |
| UBS Nominees Pty Ltd | 321,276 | 0.34 | |
| Citicorp Nominees Pty Ltd (CFSIL Commonwealth SML cos 3 a/c) | 304,984 | 0.32 | |
| UCA Growth Fund Ltd | 275,000 | 0.29 | |
| HSBC Custody Nominees (Australia) Ltd (a/c 2) | 266,408 | 0.28 | |
| AMP Life Ltd | 248,210 | 0.26 | |
| HSBC Custody Nominees (Australia) Ltd (GSCO ECA) | 239,581 | 0.25 | |
| CS Fourth Nominees Pty Ltd | 218,481 | 0.23 | |
| | 85,885,151 | 90.90 | |

Shareholder Information continued

C Substantial holders

Substantial holders (including associate holdings) in the company are set out below:

| | Number held | Percentage |
|-----------------------------------|----------------|------------|
| Ordinary shares | | |
| Gainsdale Pty Ltd | 17,228,687 | 18.15% |
| Gehar Pty Ltd | 16,260,493 | 17.21% |
| James Management Services Pty Ltd | 13,541,850 | 14.33% |
| Lazard (Institutional Group) | 10,463,456 | 11.08% |
| Friday Investments Pty Ltd | 6,724,502 | 7.12% |

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 Ltd 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%) at 9 August 2007.

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

| Directors | G.F.Turner |
|--|--|
| Directors | P.F.Barrow |
| | H.L.Stack |
| | B.R.Brown |
| | G.L.Harris (Alternate director) |
| Secretary | G.Pringle |
| Notice of annual general meeting | The annual general meeting of Flight Centre Limited |
| will be held at | Novotel Brisbane 200 Creek Street Brisbane QLD 4000 |
| time | 10:30am |
| date | 1 November 2007 |
| | A formal notice of meeting is enclosed |
| Principal registered office in Australia | Level 13, 316 Adelaide Street |
| | Brisbane QLD 4000 |
| Share and debenture register | Computershare Investor Services Pty Ltd |
| | Central Plaza One |
| | Level 32, 345 Queen Street |
| | Brisbane QLD 4000 |
| Auditor | PricewaterhouseCoopers |
| | Riverside Centre |
| | Level 15, 123 Eagle Street |
| | Brisbane QLD 4000 |
| Solicitors | Allens Arthur Robinson |
| | Level 32, Riverside Centre |
| | Brisbane QLD 4000 |
| Bankers | Westpac Banking Corporation |
| | 260 Queen Street |
| | Brisbane QLD 4000 |
| | Commonwealth Bank of Australia |
| | 240 Queen Street |
| | Brisbane QLD 4000 |
| Stock exchange listings | Flight Centre Limited shares are listed on the Australian Securities Exchange. |
| Website address | www.flightcentre.com.au |
| | · · |

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