

# ASX ANNOUNCEMENT

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## Flight Centre Travel Group Limited (FLT)

Thursday 27 August 2015

### **FY15 Appendix 4E and financial report**

Please find attached for release to the market, copies of Flight Centre Travel Group Limited's:

- Appendix 4E for the year ended 30 June 2015; and
- 2015 Directors' Report, the Financial Report, the Directors' Declaration and the Audit Report

## APPENDIX 4E: RESULTS FOR ANNOUNCEMENT TO THE MARKET

### Results in brief

	June 2015 \$'000	June 2014 \$'000	Change \$'000	Change %
Total transaction value (TTV) <sup>1</sup>	17,597,930	16,049,048	1,548,882	9.7%
Revenue	2,396,989	2,244,569	152,420	6.8%
Net profit before tax	366,297	323,780	42,517	13.1%
Net profit after tax	256,553	206,918	49,635	24.0%

<sup>1</sup> TTV is un-audited, non-IFRS financial information and does not represent revenue in accordance with Australian Accounting Standards. TTV represents the price at which travel products and services have been sold across the group's various operations, as agent for various airlines and other service providers, plus revenue from other sources. FLT's revenue is, therefore, derived from TTV.

### Dividends

	Amount per Security Cents	100% Franked Amount Cents
<b>30 June 2015</b>		
Interim dividend	55.0	55.0
Final dividend <sup>2</sup>	97.0	97.0
<b>30 June 2014</b>		
Interim dividend	55.0	55.0
Final dividend <sup>3</sup>	97.0	97.0

<sup>2</sup> The record date for determining entitlements to the final dividend of 97.0 cents per share is 18 September 2015. The payment date for the final dividend is 16 October 2015.

<sup>3</sup> Final dividend of 97.0 cents per share for the year ended 30 June 2014 was declared 27 August 2014.

### Net tangible assets

	June 2015 \$	June 2014 \$
Net tangible asset backing per ordinary security	8.77	7.90

### Compliance statement

The report is based on the consolidated financial report which has been audited. Refer to the attached full financial report for all other disclosures in respect of the Appendix 4E.

Signed:



G.F. Turner  
Director  
27 August 2015



**FINANCIAL REPORT**  
FOR THE YEAR ENDED 30 JUNE 2015

FLIGHT CENTRE TRAVEL GROUP LIMITED (FLT)  
ABN 25 003 377 188

## Corporate directory

<b>Directors</b>	G.F. Turner G.W. Smith J.A. Eales R.A. Baker C.L. Kelly
<b>Secretary</b>	D.C. Smith
<b>Principal registered office in Australia</b>	Level 2, 545 Queen St Brisbane QLD 4000 +61 7 3170 7979
<b>Share register</b>	Computershare Investor Services Pty Ltd 117 Victoria Street West End QLD 4101
<b>Auditor</b>	Ernst & Young 111 Eagle Street Brisbane QLD 4000
<b>Stock Exchange listings</b>	FLT shares are listed on the Australian Securities Exchange.
<b>Website address</b>	<a href="http://www.fctgl.com">www.fctgl.com</a>
<b>ABN</b>	25 003 377 188

## Key dates 2015/16

August 27, 2015 .....	2014/15 full year results released
September 18, 2015 .....	2014/15 final dividend record date
October 16, 2015 .....	2014/15 final dividend payment date
November 12, 2015 .....	Annual General Meeting
February 23*, 2016 .....	2015/16 half year results released
March 24*, 2016 .....	2015/16 interim dividend record date
April 14*, 2016 .....	2015/16 interim dividend payment date

\*Dates are subject to change

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This financial report covers the consolidated financial statements for the consolidated entity consisting of FLT and its subsidiaries. The financial report is presented in Australian currency.

FLT is a company limited by shares, incorporated and domiciled in Australia.

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities in the directors' report.

The financial report was authorised for issue by the directors on 27 August 2015. The directors have the power to amend and reissue the financial report.

FLT endorses the ASX's Corporate Governance Principles and Recommendations and complies in all areas, apart from amalgamating the Remuneration and Nomination Committee. Further information on FLT's compliance with the Corporate Governance Principles and Recommendations can be found on the company's website [www.fctgl.com](http://www.fctgl.com)

# DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as the group) consisting of Flight Centre Travel Group Limited (FLT) and the entities it controlled at the end of, or during, the year ended 30 June 2015.

## Directors

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

G.F. Turner

G.W. Smith

J.A. Eales

R.A. Baker

P.R. Morahan was a director from the beginning of the financial year until his resignation on 1 September 2014.

C.L. Kelly was appointed a director on 1 September 2014 and continues in office at the date of this report.

## Principal activities

The group's principal continuing activities consisted of travel retailing in both the leisure and corporate travel sectors, plus wholesaling.

There were no significant changes in the nature of the group's activities during the year.

## Significant changes in state of affairs

There was no significant change in the group's state of affairs during the year.

## Dividends – Flight Centre Travel Group Limited

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

	2015 \$'000	2014 \$'000
Final ordinary dividend for the year ended 30 June 2014 of 97.0 cents (2013: 91.0 cents) per fully paid share, paid on 17 October 2014	97,670	91,476
Interim ordinary dividend for the year ended 30 June 2015 of 55.0 cents (2014: 55.0 cents) per fully paid share, paid on 16 April 2015	55,438	55,308
	153,108	146,784

## Result overview

The Flight Centre Travel Group (FLT) achieved a \$366.3million statutory profit before tax (PBT) for the year to June 30 2015.

While this was a record result and a 13.1% increase on the \$323.8million statutory PBT achieved during 2013/14, it was below the company's expectations and below the prior year on a normalised or underlying basis.

As announced previously, underlying PBT for 2013/14 was \$376.5million.

Excluding the \$2.6million contribution from Top Deck, which was acquired in August 2014, underlying PBT\* for 2014/15 was \$363.7million (down 3.4%).

Statutory net profit after tax (NPAT) increased 24% to \$256.6million (FY14: \$206.9million) but decreased 3.3% at an underlying level to \$254.8million (FY14: \$263.6million).

Total transaction value (TTV)\* increased 9.7% to a record \$17.6billion, with new records established each month.

Revenue increased 6.8% to \$2.4billion, giving FLT a 13.6% income margin. This income margin was lower than the previous corresponding period (FY14: 14%) but above the long-term average of 13.5% since 2002.

\* Underlying PBT and TTV are non-IFRS measures and are unaudited. June 2015 underlying PBT excludes \$2,563,000 Top Deck PBT. June 2014 underlying PBT excludes non-cash adjustments of \$61,300,000 impairment, the positive \$19,600,000 FCGP revenue alignment and the \$11,000,000 ACCC fine.

### Costs

In terms of costs, FLT's major expense items were again wages, advertising and rent.

Employee benefits expense increased, as expected given the company's sales network expansion and the changes in front-end pay structures in Australia, the United Kingdom and New Zealand. Payments to Key Management Personnel (KMP) decreased, as a result of the company's lower than anticipated earnings during 2014/15.

In dollar terms, FLT's advertising and marketing spend increased and equated to 1% of TTV over the full year. This percentage was broadly in line with the company's normal spending habits but slightly lower than the prior year (1.1% of TTV).

Rent expenses increased as the company expanded its network globally. In Australia, the company typically achieved modest decreases for rent renewals and for new shop leases.

### Capital expenditure and growth

Capital expenditure increased to \$80million as FLT rolled out new shop designs.

In 2015/16, the company will spend up to \$120million in capital expenditure, which will consist of:

- An investment of up to \$70million on shop refurbishments and new store fit-outs as FLT continues to roll out its new shop design
- A \$20million spend on upcoming head office moves and fit-outs in Australia, the USA and Singapore; and
- A \$30million investment in IT software and hardware. The increased investment includes the roll-out of Microsoft Dynamics as the company's new mid and back-office finance platform

This new platform, which will be gradually rolled out from November, will allow FLT to retire up to 10 systems and will bring new efficiencies to the business, in addition to supporting FLT's omni-channel vision and enhancing customer and consultant interactions.

In terms of growth, sales staff numbers increased 6.3% to 14,433 and shop and business numbers increased 5.5% to 2,825.

Asia and the Middle East were FLT's fastest growing operations, with shop and business numbers increasing more than 30% from a relatively small base in Greater China, Singapore and the United Arab Emirates (UAE).

FLT again complemented its organic growth with small and strategic acquisitions.

The company acquired touring specialist Top Deck in August 2014 and its FCm licensee in Mexico, Koch Overseas, in July 2015, after buying Travelplan Corporate in Dublin late in 2013/14 and investing in the Buffalo Tours destination management joint venture in 2014/15.

### Cash, cash flow and dividends

FLT finished the year with record cash reserves and minimal debt.

General (company) cash totalled \$564.7million at June 30 (FY2014: \$476.0million) and was part of a \$1.45billion global cash and investment portfolio, while debt was just \$32.8million (FY2014: \$44.9million).

In line with normal operating cash flow patterns, funds accumulated during peak second half booking periods for payment to suppliers after peak travel periods during the first half of 2015/16.

A \$362.5million operating cash inflow was recorded over the full year, compared to a \$227.1million inflow during 2013/14.

Timing factors, specifically the dates on which client funds are required to be transferred to airlines under the IATA-controlled BSP process, can significantly influence cash flow patterns and are typically responsible for any major swings that take place between periods.

In light of FLT's strong cash position, the directors elected to return a higher percentage of NPAT to shareholders during 2014/15.

Today, a fully franked \$0.97 per share fully franked final dividend was declared (payable on October 16, 2015 to shareholders registered on September 18, 2015).

This followed the fully franked \$0.55 per share interim dividend that was paid after the half year and took the return for the year to \$1.52 per share or just over \$153million in total.

While both the interim and final dividends were in line with the prior year, the 2014/15 payments represented a 60% return of underlying NPAT to shareholders, compared to a 58% return during 2013/14. FLT's dividend policy is to return 50-60% of NPAT to shareholders, subject to the business's needs at the time.

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## Operational review

Record global sales and healthy profit growth from FLT's overseas businesses helped underpin the company's results for 2014/15.

Together, FLT's businesses outside Australia generated more than \$100million in earnings before interest and tax (EBIT\*) for the first time.

Four regions generated record EBIT - the UK and Ireland, the USA, South Africa and Singapore - as the company achieved the second best profit result in its 30 plus years.

In terms of sales, growth was generally stronger in corporate travel with the global corporate businesses turning over \$5.7billion, a 16.3% year-on-year increase.

Overall, FLT's 10 geographic regions all created new TTV milestones (in local currency), as the company achieved its fifth consecutive year of record global TTV and its 19th year-on-year increase in 20 years as a public company.

In Australia, TTV increased in both leisure and corporate travel but overall EBIT finished below the record result achieved in superior trading conditions during 2013/14.

Contributing factors included:

- Lower TTV growth than initially expected in a soft Australian leisure travel market. Short-term departures from Australia increased 2.9% during 2014/15, compared to 7% growth during 2013/14 (Source: Australian Bureau of Statistics).
- Slower network expansion early in the year in leisure travel. Although sales staff numbers increased by 6.3%, most of the growth took place late in the year, which meant that the business did not get its normal uplift in TTV during the second half
- Lower margins, as outlined previously; and
- Significant ongoing investments in people, systems and strategic enhancements to drive future returns

Together, the corporate businesses in Australia made a record EBIT contribution and turnover\* of about \$2.3billion, another record.

In leisure travel, Travel Money OZ grew rapidly in both sales and profit, along with high-end brand Travel Associates and Cruiseabout, which opened its 50th Australian store in July 2014.

Significant enhancements were made to Flight Centre brand, with a new shop design rolled out and an extensive range of new products launched including Widest Choice of Airfares, Journeys and Escapes.

International Airfares Packages (IAP), offering a choice of Essentials, Value and Premium valued added inclusions, were also introduced and contributed to the recovery in gross margins as the year progressed.

Other notable achievements in Australia included:

- Enhancements to Flight Centre's blended offering with Chat functionality expanded, growth in the 24/7 workforce to provide bookings and emergency assistance and teams created to contact online customers and correct the mistakes that are commonly made with online bookings. This reinforces that customers are never on their own when they book with Flight Centre
- A new commercial agreement with Air Asia, the airline's first in Australia. The company is now working with a number of low cost carriers globally to promote their offerings to its vast leisure and corporate travel customer bases and to develop unique new products
- The Expo and Events program's continued success. Almost 200,000 people attended FLT's events in Australia during 2014/15, spending more than \$300million in the process
- Expansion in FLT's unique product ranges

FLT has generally maintained strong market-share within the key leisure travel sectors that it has focussed on in Australia.

These sectors include package holidays, long-haul, premium and complex airfares, ocean and river cruising, adventure travel and escorted touring.

The company has also recently taken steps to increase sales in highly commoditised sectors that have previously offered low or no margin and have not, therefore, been growth priorities.

This has seen FLT sign landmark commercial agreements with several low cost carriers including Air Asia and Scoot in Australia, easyJet in the UK and JetBlue in the USA.

\* EBIT and turnover are non-IFRS measures and are unaudited. For reconciliation of EBIT, refer to note A1 Segment information in the financial statements.

### Operational review (continued)

The company is also closing gaps in its online product range by:

- Adding Air Asia and Tiger fares to the flightcentre.com.au website, along with additional Jetstar inventory and ancillary product; and
- Significantly increasing hotel inventory by introducing an accommodation aggregation tool. This new product will draw from a range of databases to give FLT's Australian customers access to some 400,000 properties globally, including hotels and apartments

### UK and Ireland

In the UK and Ireland, FLT continued its growth trajectory, achieving record profits and sales.

TTV surpassed the GBP1billion barrier for the first time.

In corporate travel, FLT secured record account wins and achieved strong customer retention. FCM's wins included the two largest accounts secured by the UK business to date.

In leisure travel, new and unique product ranges were developed and launched, including:

- Journeys - unique and superior tailor-made long haul holidays to Australia, New Zealand, South Africa, the USA, Asia, Latin America and India. A new European range will be added this year; and
- Escapes - a mid to long haul beach holiday range that was launched in June 2015

This year, new hyperstores will open in Chester (first half) and in Dublin (Dawson Street) during the second half. The Dublin store will house FLT's first leisure businesses in Ireland.

### United States of America (USA)

FLT's US business generated another record profit and contributed more than \$USD2billion in TTV to FLT's top-line result.

These strong results were again underpinned by the corporate travel businesses, which together generated \$USD1billion in TTV, as FLT continued to gain market share in the world's largest corporate travel market.

During 2014/15, the corporate business expanded into Austin and Silicon Valley, giving it a 17 city presence. Expansion into Raleigh and Minneapolis is planned for 2015/16.

Campus Travel has also been introduced (July 1, 2015) to serve the North America academic community's unique travel needs.

In leisure travel, new Liberty hyperstores opened in both Los Angeles and Philadelphia and a responsive website for Liberty was launched.

This year, another hyperstore will open in Chicago and a smaller megastore, housing Liberty, Stage & Screen and Flight Center teams, plus the USA's first Travel Money business, will open in Manhattan's Union Square.

In the wholesale travel sector, GOGO Vacations launched its Travel Agents First campaign during 2015 to deliver greater value to its external travel agency partners and has followed this up with the addition of GOGO Care, a bundled collection of services and perks valued at more than \$USD200 per person.

### Rest of World

The US business is also developing closer ties with FLT's Canada operation and the recently acquired corporate travel business, Koch Overseas, in Mexico.

The Canada business, FLT's fourth largest in sales terms, had a challenging year during 2014/15, posting a loss after five years of consecutive profits.

A new leadership structure has been implemented and strategies have been introduced to improve performance, particularly in the leisure travel sector which has underperformed in recent years.

Koch's addition has provided FLT with a platform for further growth in Mexico and into Latin America, while also enhancing the company's ability to compete for and win corporate travel accounts in the USA, Canada and throughout the Americas.

Elsewhere in the world, FLT performed strongly in South Africa, achieving record profit and sales. In leisure travel, unique products were developed and launched to deliver new holiday options to customers travelling to key destinations including Mauritius and Thailand.

The New Zealand business generated record TTV and continued to enhance its blended offering by launching a locally-based 24/7 service, responsive websites and an online flight booking engine for fares to Australia and the South Pacific. The business has also started proactively allocating consultants to online bookings.

FLT's businesses in the emerging markets of Greater China (Hong Kong and Mainland China), Singapore, India and the United Arab Emirates (UAE) were all profitable and together turned over about \$870million.



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## Operational review (continued)

In sales terms, Singapore was FLT's fastest growing country during 2014/15 with TTV in both leisure and corporate travel increasing strongly.

Highlights within the region during 2014/15 included:

- Strong corporate account wins in Singapore and the addition of an online booking engine to the Flight Centre website
- FLT becoming the first global Travel Management Company to secure a wholly-owned domestic ticketing license for Mainland China
- Flight Centre Business Travel's launch in Greater China and the opening of a flagship megastore on Lyndhurst Terrace, in the heart of Hong Kong's central business district
- Significant expansion in India, with the corporate business opening in Noida and Vadodara, an FX offering introduced and high street leisure travel hyperstores opening in New Delhi and Mumbai
- Leisure travel expansion in the UAE with stores opening in Abu Dhabi (Yas Mall) and Dubai (Arabian Ranches)

Further expansion and development within the region will take place in 2015/16 with:

- The Singapore business set to open its first hyperstore, in Cecil Street, and to launch new City Breaks, Escapes and Journeys product ranges
- The fourth leisure shop to open in Hong Kong (Discovery Bay) and a new website with online booking capabilities to be launched
- Another hyperstore opening in India in Bangalore on July 1; and
- The Breaks and Escapes unique product ranges set to be launched in the UAE

## Strategic update

FLT has embarked on a journey to become the world's best person-to-person travel experience retailer.

This strategic evolution, dubbed the company's "Killer Theme", has become the blueprint for FLT's future in Australia and has also been implemented to varying degrees overseas.

Seven mini-themes were initially introduced to underpin this journey:

1. Having world class and specialised brands
2. Our product not just someone else's
3. Being experts, not agents
4. Working from branded business spaces, not offices
5. Offering customers blended access
6. Using information as power; and
7. Creating a sales and marketing machine

Significant progress has been made in each area during the past two to three years.

In terms of brand and specialisation, FLT has worked to develop its brands as the clear thought leaders in their specialised segments.

Each brand now has clear Customer Value Propositions (CVPs) and is innovative and different, which leads to increased mind share among customers.

In the product space (mini-theme 2), significant change has taken place as the company has focussed on creating unique product and travel experience ranges.

The goal was to create products that were FLT's - not always someone else's - and becoming famous - gaining mind share - for those products and experiences.

As a result, FLT now has a vast collection of manufactured offerings across three levels of unique products:

1. Travel products/experiences - examples include the Journeys and Escapes ranges
2. Service products/experiences - for example, Flight Centre brand's International Airfare packages; and
3. Technological products/experiences - including the products that are now available to our corporate customers

Enhancing consultant expertise, mini-theme three, was geared towards ensuring FLT's sales people were recognised as experts in their specialised areas. To achieve this aim, comprehensive brand accredited training programs were developed and launched.

The shift from a traditional office environment to branded business spaces (mini-theme four) has led to significant enhancements in-store, including the development of dedicated customer spaces, travel experiences spaces and sales spaces.

### Strategic update (continued)

New Shop of the Future designs have been introduced for Flight Centre and various other brands, while corporate travel offices have been transformed into business travel hubs.

In these hubs, the businesses can showcase their bundled deals and unique products, including Corporate Travellers Smart range. Potential customers can visit to experience the tangible and obvious benefits of FLT's physical model.

Blended travel - mini-theme five - has led to major enhancements across all sales channels in recent years to ensure customers transact and interact with FLT's businesses when and how they want.

A key goal has been to ensure that customers are never on their own when they book with FLT and its brands.

This has seen:

- Shop hours extended
- New features added to FLT's websites, including online booking engines
- Significant growth in 24/7 sales and assistance teams to cater for the large volume of enquiry that is generated after hours
- The launch of responsive websites and booking engines
- Expansion in the use of Chat and other interactive features; and
- The launch of various apps, particularly in the corporate travel business

Information is power (mini-theme six) has focussed on delivering valuable, real-time information to the business.

Through better use of this information, the company can gain a clearer picture instantly of what's being looked at, enquired about, booked and discarded. This helps ensure FLT's brands always have "in-demand" product in the market place.

A Customer Intelligence and Analysis area was created, along with a new Reporter tool to deliver this information to the business.

Sales and marketing (mini-theme seven) enhancements included the investment in Product, Advertising and Customer Experience (PACE) areas. PACE teams are using the information that is now more readily available to be more targeted in their campaigns, which will allow the company to cost-effectively generate enquiry and sales.

While these mini-themes remain key areas of focus, they have now been condensed into five important sub-journeys:

1. Our product journey
2. Our shop or physical journey
3. Our business journey
4. Our sales journey; and
5. Our people journey

These journeys will be integral to FLT's success in the future.

## Strategic update (continued)

### Risk management

Risks	Strategies and mitigation
Slower overall market growth in challenging economic cycles (macro-economic factors)	Brand and geographic diversity: Decreasing reliance on any one brand or business Balance sheet strength: Ability to strengthen network, invest in key areas and capitalise on opportunities during “down” cycles
Global pandemics or unrest that can temporarily alter travel patterns	Brand and geographic diversity: No reliance on any individual market or supplier
Emergence of alternative/new distribution channels	Multi-channel growth: Enhancements across all channels to allow customers to transact and interact 24/7 in the ways that are most convenient for them Blended access for customers: Key strategy in overall journey from travel agent to world’s best person-to-person travel experience retailer Proactively using the web as part of “Killer Theme” Sales Journey Adding value online: Ability to personalise online transactions Unique product ranges: Differentiating FLT’s brands
Reliance on Australian business to drive overall results	Geographic diversity: Growing presence across 10 countries and regions Expansion: Sales network growing more rapidly overseas Earnings growth: Combined overseas EBIT topped \$100million for first time during 2014/15
Cost control	Productivity: Ongoing enhancement to offset inevitable wage, rent and advertising increases Developing lower cost distribution models Lean support structures: 80% of workforce in front-end sales roles
Leadership, staff development and recruitment/retention to meet FLT’s growth needs	People Journey a key part of “Killer Theme” Comprehensive training programs in place to identify talent, develop leaders and enhance expertise. Graduate program Mentoring Focus on retention and staff engagement
Customer experience	Entrenched commitment to delivering amazing travel experiences Consultants as “connectors” Proactive interaction with customers throughout the travel cycle Focus on person-to-person retailing 24/7 assistance At-destination assistance built into new product ranges - Journeys, Travel Concierges

### Outlook

FLT sees solid growth prospects globally during 2015/16 and will target an underlying PBT between \$380million and \$395million for the year to June 30 2016.

If achieved, a result within this range will represent 4%-8% growth on the \$366.3million PBT achieved during 2014/15.

This preliminary guidance for 2015/16 excludes:

- Impairment or significant unforeseen items that can arise in any given year; and
- The \$11million that will be returned to FLT following its recent win in the long-running ACCC competition law test case. The \$11million will be included in the company’s statutory PBT for the year.

Overall, FLT has started the new financial year reasonably and based on year-to-date trading results, is currently tracking in line with its annual PBT growth target.

In Australia, the company is seeing some positive momentum in leisure travel, with customer enquiry currently tracking above target, sales in key sectors continuing to grow and gross margins recovering. Gross margins in Flight Centre brand have rebounded and have improved in the niche leisure brands.

### Outlook (continued)

The cost outlook is also more stable than during 2014/15 when the change in front-end wage structures added \$13million to the Australian leisure business's cost base.

The Australian corporate travel business is also well placed to build on its success. TTV is increasing in a fairly soft trading climate, the company is achieving solid productivity gains and new account wins are currently at record levels.

In addition to improving Australian results, other key growth drivers will include:

- Greater profit and sales contributions from off-shore as businesses gain scale
- Overall market growth as the Golden Era of Travel continues
- A full year contribution from Top Deck. The business was acquired in August 2014 after its peak profit period; and
- Ongoing network expansion. This will see the company expand its network organically in existing cities, export brands to new locations and, in some cases, acquire businesses

This year, the company aims to expand its global sales network by 6-8%, which will see FLT create more than 1000 new jobs. Growth highlights will include the opening of new hyperstores in Australia, the USA, the UK, Ireland and Asia.

FLT will continue to target strategic acquisitions to complement its organic growth.

Typically, the company will consider businesses that:

- Operate in sectors that FLT is not currently in
- Enhance FLT's scale by adding sales volume; and
- Offer low cost business models

### Online growth opportunities

FLT sees growth opportunities online as part of the company's blended offering and by targeting customers who prefer to transact online.

The web will be proactively incorporated into in-store sales processes, as part of the person-to-person sales journey, and online brands will be developed or acquired if financially viable to target the sectors that have shifted online at the greatest pace.

### Matters subsequent to the end of the financial year

#### Koch Overseas De Mexico, S.A de C.V (Koch Overseas)

On 17 July 2015, FLT completed the acquisition of the corporate travel business Koch Overseas based in Mexico City for consideration of USD\$1,400,000 (\$1,877,000) for 100% ownership. The business is closely aligned to FLT and was formally part of the global FCM Travel Solutions licensee network. Refer to note H3 for further details.

#### ACCC competition test law case

On 31 July 2015, FLT won its appeal in the long running competition law test case initiated against it by the ACCC in relation to alleged breaches of the Trade Practices Act 1974. The Full Court of the Federal Court of Australia overturned the judgment that was handed down against FLT in December 2013 and the ACCC was ordered to pay FLT's legal costs for both the initial case and for the subsequent appeal. The judgment in FLT's favour means the \$11,000,000 in penalties were repaid to the company (interest yet to be repaid), and will be included in its financial results for 2015/16. Refer to note H3.

The case was initially heard in October 2012 and judgment was delivered in the ACCC's favour in December 2013. A subsequent penalty hearing concluded in February 2014, with \$11,000,000 in penalties imposed by the Federal Court that FLT paid in May 2014 and was reflected in the 2013/14 results.

#### Dividends

On 27 August 2015, FLT's directors declared a fully franked 97.0 cents per share final dividend on ordinary shares for the 2015 financial year. The total amount of the dividend is \$97.8 million. The combined interim and final dividend payments represent a \$153.2 million return to shareholders, 60% of FLT's statutory NPAT.

No other material matters have arisen since 30 June 2015.

### Likely developments and expected results of operations

Information on likely developments in the group's operations and the expected results of operations has been included in the Strategic update section on page 5 and Outlook section on page 7 of this report.

### Environmental regulations

The group has determined that no particular or significant environmental regulations apply to it.

## Information on Directors

			Directors' interests in shares of FLT as at date of this report
Director	Experience and directorships	Special responsibilities	Ordinary Shares
P.R. Morahan MAICD	FLT director since 2007, until his resignation on 1 September 2014.	Resigned as independent non-executive chairperson, remuneration & nomination committee member, and audit committee member on 1 September 2014	10,231*
G.W. Smith BCom, FCA, FAICD	FLT director since 2007. Managing director of Tourism Leisure Corporation and the Kingfisher Bay Resort Group of companies, Chartered Accountant. Director of Tourism Events Queensland and Michael Hill International Limited since 2012.	Appointed independent non-executive chairperson on 1 September 2014  Remuneration & nomination committee member  Audit committee member	15,000
J.A. Eales BA, GAICD	FLT director since 2012. Director of GRM International, International Quarterback, Australian Rugby Union Limited, and FujiXerox-DMS Asia Pacific. Co-founder of the Mettle Group in 2003, which was acquired by Chandler MacLeod in 2007.	Independent non-executive director  Remuneration & nomination committee chairperson  Audit committee member	3,000
R.A. Baker FCA, GAICD	FLT director since 20 September 2013. Former audit partner of PricewaterhouseCoopers, with vast experience in the retail, travel and hospitality sectors. Chairperson of John Goodman & Co Ltd since October 2014, chairperson of International Justice Fund Limited since April 2015, chairperson of Employment Office Australia Pty Ltd since June 2015, advisory board member and Audit and Risk Committee member for the Catholic Development Fund, Archdiocese of Sydney since 2011, and chairperson of the Audit and Risk Committee of the Australian Catholic University Limited since May 2015.	Independent non-executive director  Remuneration & nomination committee member  Audit committee chairperson	2,000
C.L. Kelly BEc(Hons)	FLT director since 1 September 2014. Co-founder and chair of corporate advisory firm Pottinger, deputy chairperson of Treasury Corporation of Victoria, chairperson of Allpress International and director of UNSW Foundation Limited. Extensive experience in executive management and advisory roles for major corporations and governments in both Australia and overseas. Areas of expertise include strategic growth, mergers and acquisitions, leadership, finance, risk and compliance; and governance and stakeholder management.	Independent non-executive director  Remuneration & nomination committee member  Audit committee member	400
G.F. Turner BVSc	Founding FLT director with significant experience in running retail travel businesses in Australia, New Zealand, USA, UK, South Africa, Canada and Asia. Director of the Australian Federation of Travel Agents Limited.	Managing Director	15,244,487

\*P.R. Morahan's ordinary shares are stated as at the date of his resignation, 1 September 2014.

No directors held interests in options or performance rights during the year (2014: nil).

## DIRECTORS' REPORT continued

### Company secretary

The company secretary, Mr D.C. Smith (B.Com, LLB), was appointed on 31 January 2008 and has worked for FLT for 13 years.

### Meetings of directors

The number of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2015 and the number of meetings attended by each director were:

	Committee meetings					
	Full meetings of directors		Audit		Remuneration & nomination	
	A	B	A	B	A	B
P.R. Morahan	2	2	1	1	-	-
G.W. Smith	12	12	4	4	2	2
J.A. Eales	12	12	3	4	2	2
R.A. Baker	11	12	4	4	1	2
C.L. Kelly	10	10	3	3	2	2
G.F. Turner	10	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

#### Overview by John Eales, Remuneration and nomination committee chairperson

On behalf of FLT's board, I am pleased to introduce your company's Remuneration Report.

In the following pages, you will find comprehensive details on our remuneration structures, policies and governance, along with earnings information for key executives and directors.

As you will read, the average FLT senior executive earned less during 2015, when bottom-line results did not meet initial expectations, than during 2014, when the company recorded solid profit growth. This reflects the strong correlation between pay and performance within the company's senior ranks, a feature that is often highlighted by external commentators.

In fact, our very own Graham Turner (Skroo), has in the past been judged Australia's best value CEO (Source: Egan & Associates and The Australian Financial Review). Skroo's salary again made headlines during 2014/15, when he was identified as the second lowest paid CEO in an ASX S&P 100 company for the 2014 fiscal year – hopefully he didn't see it!

This column is a new Remuneration Report addition and summarises our remuneration philosophy, in addition to highlighting the differences between our model and others to help shareholders and other interested stakeholders understand our thinking.

#### Remuneration philosophy

FLT does not believe in a one-size-fits-all approach. Accordingly, it has a unique remuneration framework that is purpose-built to suit the company and its objectives. This framework is aligned with the company's philosophies and ties pay to performance, thereby ensuring that FLT's people are rewarded financially when shareholder value is created.

In simple terms, FLT's remuneration objectives are to ensure:

- It can attract and retain key people in a competitive market - the five executives (excluding directors) who are classed as KMP in this report have an average tenure with FLT of more than 20 years and an average age of just 47
- Its people are recognised and rewarded appropriately for their achievements in growing the business, helping the company achieve its longer term strategic objectives and creating shareholder value; and
- Its incentive structures are simple and transparent. FLT believes that incentives must be based on measurable and reliable outcome-based key performance indicators (KPIs) and that if the right outcomes are rewarded, FLT, its people, and ultimately its shareholders will benefit

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## Remuneration report (continued)

### Acceptability to shareholders

Another important consideration is, of course, to ensure that our remuneration structures and policies are acceptable to shareholders.

In this regard, we proactively engage with industry bodies, special interest groups and other key stakeholders, listen to their feedback and, from time to time, amend our structures.

Recent examples include:

- A shift in executive remuneration structures during 2013/14 to ensure a higher proportion of executive pay was “fixed”. This followed liaison with the Australian Shareholders’ Association; and
- The likely introduction of a longer performance period (three years) in FLT’s next generation long-term incentive (LTI) program, which is currently being finalised. The Senior Executive Option Plan (SEOP) and the Senior Executive Performance Rights Plan (SEPRP), both of which have now expired, had a one-year performance period

Generally, shareholders have responded positively to our remuneration system and the policies, beliefs and governance structures that underpin it.

During the past 10 years, the largest vote against our Remuneration Report represented just 5% of our issued capital (2007) and the average over the past two years has been in the order of 0.5%.

### Understanding the differences

While external feedback is generally positive, it is appropriate to highlight the fact that FLT’s system differs from conventional programs in various ways.

These deviations typically relate to:

- The relatively short performance period (one year) that applied to the expired SEOP and SEPRP long-term incentive programs
- The level of “at risk” remuneration for executives – another area that has recently been addressed
- The use of a single measure, profit before tax, as a metric for our short-term incentive programs; and
- Uncapped executive incentives. Incentives for FLT’s sales staff are also uncapped

While executive earnings are theoretically uncapped, structures and natural curbs are in place to prevent salaries from sky-rocketing to unacceptable levels.

Firstly, mechanisms and governance processes have been implemented to ensure earnings reflect the results achieved and that the outcomes are aligned to shareholder interests.

Secondly, executives earn a relatively small percentage of FLT’s global profit result, the results of its core business units or a combination of both. This percentage decreases when FLT or the business unit hits a stretch target, which means the executives’ earning potential slows when earnings significantly exceed targets and expectations.

A step change in company earnings will not, therefore, translate to uncontrolled earnings growth for FLT’s executives, as illustrated in the example below.

Had FLT managed to double underlying PBT during 2014/15 to \$750million, under the remuneration structures that were in place last year Skroo would have earned in the order of \$2.4million – still considerably less than his counterparts at other ASX S&P 100 companies.

While PBT growth of this nature is obviously extremely unlikely for a company of our size, this example gives shareholders an insight into the effects an extreme event will have on executive earnings and highlights the balances and safeguards that are built into the FLT remuneration system.

### 2015/16

FLT believes its current remuneration structures encourage executives to build businesses that will thrive in the long-term, but is also working on a new initiative that will strengthen this long-term focus.

The new LTI, will replace the SEOP and SEPRP and will increase staff ownership, encourage key people to remain with the business for the long-term and reward key people for creating shareholder value. Further details will be provided in due course.

Once again, thank-you for your support of our company.

### Remuneration report – audited

FLT's remuneration report outlines the company's executive reward framework and includes director and KMP remuneration details. This report is set out under the following main headings:

1. Principles used to determine the nature and amount of remuneration
2. Details of remuneration, including service agreements
3. LTIs: Business Ownership Scheme (BOS) return multiples on redemption
4. Share-based compensation; and
5. Loans to key management personnel

Information in this remuneration report has been audited in accordance with section 308(3C) of the *Corporations Act 2001*.

#### 1 Principles used to determine the nature and amount of remuneration

The following section outlines FLT's remuneration policy and the philosophies that underpin it. Information is presented in a question and answer format and falls under six broad categories:

- i Remuneration philosophies and structures
- ii Alignment with shareholder wealth and value creation
- iii Director remuneration
- iv Executive (KMP) remuneration
- v Executive LTIs; and
- vi Remuneration governance

##### 1i) Remuneration philosophies and structures

###### What is FLT's remuneration philosophy?

In line with its belief in common sense over conventional wisdom, FLT has structured a simple remuneration system that is aligned with its core philosophies.

The reward framework is in line with market practice and aims to ensure overall reward is:

- Market competitive, which allows the company to attract and retain high calibre people
- Aligned with participants' interests, reflecting responsibilities and rewarding achievement and shareholder value creation
- Acceptable to shareholders
- Transparent – clear targets are set and achievements against these targets are measurable; and
- Compatible with the company's longer term aims, capital management strategies and structures

All employees (excluding non-executive directors) have the security of fixed income, plus the opportunity to earn additional variable income when FLT or its various business units achieve or exceed predetermined profit targets and shareholder value is created.

FLT strongly believes in the value of incentives, a belief that is underlined in its core philosophies, and uses measurable and reliable outcome-based KPIs as the basis of its incentive and overall remuneration systems globally.

If the right outcomes are rewarded, the company, its people and its shareholders will benefit.

FLT's philosophies also underline the company's belief in the importance of providing its people with ownership opportunities and the chance "to share in the company's success through outcome-based incentives, profit share, BOS and Employee Share Plans".

Accordingly, ownership opportunities are built in to the company's remuneration structures to encourage FLT's people to behave as long-term stakeholders in the company and to adopt the strategies, discipline and behaviours that create longer term value.

The company's overall remuneration system is unique and consistently rates highly in pay-for-performance scales and surveys. CEO Graham Turner's total salary during 2013/14 – \$657,073 – was less than a quarter of the \$2.875million annual package paid to the average ASX S&P Top 300 CEO.



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## Remuneration report – audited (continued)

### What are the key components of FLT’s reward framework?

Executive remuneration includes a combination of:

- Fixed pay – typically a retainer, plus long service leave provisions and superannuation
- STIs that are paid monthly and based on measurable KPIs (variable)
- BOS returns, which are variable and based on the performance of the participating executive’s individual business; and
- LTIs, which may include share-based compensation and, in some cases, BOS return multipliers (variable)

Additional detail on each of these components is included below:

### Components of executive remuneration

#### **Base pay**

Base pay is the largest component of fixed pay and is typically referred to within the company as a retainer.

The retainer component will represent a fraction of an executive’s overall earnings because of the company’s use of STIs and other structures. For example, the CEO’s salary for 2014/15 – \$518,238, included base pay of \$282,225.

FLT does not guarantee annual base pay or retainer increases for executives or for its people at other levels.

#### **STIs**

STIs are paid monthly, based on measurable achievements against predetermined KPIs or targets.

Executives earn STIs if:

- They meet their KPIs
- FLT achieves a predetermined profit target; or
- They achieve a predetermined profit target within their business divisions

To ensure transparency, quantifiable targets for STIs are set at the start of each year. This means that each executive knows what he or she needs to achieve to earn all or part of his or her targeted STIs.

FLT does not guarantee its executives will earn the full incentive component of their targeted remuneration package or, therefore, the annual salary package an executive will earn.

Incentive earnings are reviewed and targets can be amended during the course of any given year, as outlined in greater detail in the remuneration governance section.

#### **Business Ownership Scheme returns**

In line with its belief in the importance of leaders taking ownership of the businesses they run to improve performance and to encourage long-term strategic thinking, the company invites eligible executives to participate in its BOS. BOS participants invest in unsecured notes in their individual businesses as an incentive to improve performance in both the short and long-term and receive a variable return that is tied to the individual business’s performance. In basic terms, a BOS participant who has invested in a 10% interest in his or her business is entitled to 10% of the business’s profit as a return on his or her investment.

The executive is exposed to the risks of his or her business, as neither FLT nor any of its group companies guarantees returns above face value.

In accordance with the BOS prospectus, the board, via its remuneration and nomination committee, has the power to review and amend a BOS note if an individual return exceeds 35% of the BOS note’s face value in any 12-month period.

As an incentive for senior executives to remain in their roles long-term, key executives may also be invited to participate in a BOS Multiplier program, as outlined in section 3 of this report. Under this program, invited senior executives are entitled to BOS return multiples of 5, 10 and up to 15 times the BOS return in the last full financial year before their BOS note is redeemed.

Provisions for these payments are taken up each year and the amounts are shown in the salary tables in section 2.

## Remuneration report – audited (continued)

### Share-based compensation

Share-based compensation may be available to staff through FLT's Employee Share Plan (ESP), SEOP and SEPRP.

The ESP was available to all staff in Australia (excluding directors), New Zealand, Canada, the USA, South Africa and the UK during 2014/15.

In prior years, specific executives were granted share options or performance rights under the SEOP and SEPRP respectively, as outlined in section 4 of this report. No new options or performance rights were granted during 2014/15 and both the SEOP and SEPRP have now expired.

Generally, the board has the discretion to either issue new shares or to buy shares on market under each of the ESP, the SEOP and the SEPRP, subject to relevant laws.

### Superannuation

Other payments are made in accordance with relevant government regulations. Superannuation contributions are paid to a defined contribution superannuation fund.

## 1ii) Alignment with shareholder wealth and creation

### How does FLT align executive remuneration with shareholder wealth creation?

FLT has created a simple overall reward system that ties executive earnings to outcomes that drive financial results and, ultimately, shareholder value creation. Pay-for-performance is integral to this system.

All employees are incentivised to improve results year-on-year and are rewarded according to their achievements against KPIs that are both measurable and outcome-based. For KMP, KPIs include year-on-year growth in either FLT's overall profit or within its key business units, as outlined elsewhere in this report.

If the company or the key business units' results exceed expectations, KMP incentive earnings - and overall salaries - will typically exceed targeted earnings. Conversely, if the company or the key business units' results are below expectations, KMP incentive earnings - and overall salaries - will typically fall below targeted earnings for the year.

In simple terms, this means that overall executive remuneration will typically be:

- Broadly in line with targeted earnings in years where results are in line with expectations, as was the case during 2013/14
- Above targeted earnings in years where results are above expectations and shareholders benefit from higher than expected dividends and EPS, as experienced during 2010/11, 2011/12 and 2012/13; and
- Below targeted earnings when results and ultimately shareholder returns are below expectations, as experienced during 2014/15

Generally, executives earned higher salaries during 2013/14, when FLT's underlying PBT and EPS increased by 9.7% and 9.5% respectively, than during 2014/15, when underlying PBT and EPS decreased by 3.4% and 3.5% respectively.

The following table illustrates changes in shareholder wealth and other key measures over the past five years:

	2014/15	2013/14	2012/13	2011/12	2010/11
Profit before income tax	\$366.3m	\$323.8m	\$349.2m	\$290.4m	\$213.1m
Underlying profit before income tax <sup>1</sup>	\$363.7m	\$376.5m	\$343.1m	\$290.4m	\$245.2m
Profit after tax	\$256.6m	\$206.9m	\$246.1m	\$200.1m	\$139.8m
Interim dividend	55.0c	55.0c	46.0c	41.0c	36.0c
Final dividend	97.0c	97.0c	91.0c	71.0c	48.0c
Earnings per share (basic)	254.7c	205.8c	245.6c	200.1c	140.0c
Share price at 30 June	\$34.11	\$44.45	\$39.33	\$18.93	\$21.62

<sup>1</sup> Underlying profit before income tax is a non-IFRS measure as defined on page 1.

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## Remuneration report – audited (continued)

### Will KMP remuneration automatically increase if FLT's PBT increases?

Year-on-year profit improvement will not necessarily translate to year-on-year earnings growth for executives, as targeted STI packages are based on FLT or its key business units achieving specific PBT targets.

If FLT falls short of its growth target, KMP profit-related STI earnings will finish below expectations. Conversely, KMP's profit-related STI earnings will exceed expectations if FLT exceeds its profit target for the year.

### How does FLT's remuneration system benefit both its employees and its shareholders?

For executives and employees in general, benefits include:

- Provision of clear targets and structures for achieving rewards. When outcomes achieved exceed the targets set, rewards will be greatest
- Achievement, capability and experience are recognised and rewarded; and
- Contribution to shareholder wealth creation is rewarded

For shareholders, benefits include:

- A clear short and long-term performance improvement focus, as year-on-year profit growth is a core component of FLT's remuneration system. KMP must deliver reasonable year-on-year growth to maintain consistent earnings
- A focus on sustained growth in shareholder wealth, consisting of dividends and share price growth and delivering constant returns on assets; and
- The ability to attract and retain high calibre executives

### 1iii) Director remuneration

#### How are non-executive directors (NEDs) remunerated?

To preserve their independence, NEDs receive fixed fees that reflect the positions' demands and responsibilities. FLT's remuneration and nomination committee reviews and benchmarks these fees annually.

Fees are determined within an aggregate directors' fee pool, which is periodically recommended for shareholder approval. The pool currently stands at \$850,000 per annum, as approved by shareholders on 31 October 2013.

During 2014/15, FLT paid 77% of this pool to its NEDs. This excludes the remuneration paid to Graham Turner, who is an executive director.

NEDs are not eligible to participate in the ESP or BOS program and did not to participate in the SEOP or the SEPRP.

#### How are chairperson's fees determined?

The chairperson's fees of \$201,218 (2014: \$200,759) are determined independently and are benchmarked against comparable roles in other listed entities. The chairperson does not attend discussions relating to his remuneration.

### 1iv) Executive KMP remuneration structures

#### How are KMP incentivised?

KMP are incentivised to deliver profit and growth, which in turn drive shareholder returns. Executives are also incentivised to develop sustainable, long-term businesses and strategies, as year-on-year improvement is required to maintain STI earnings.

KMP STIs for 2014/15 were based on the following:

- The CEO (Graham Turner) and CFO (Andrew Flannery) were incentivised on growing FLT's profit before tax (PBT) for the year
- The COO (Melanie Waters-Ryan) was incentivised on a combination of FLT's PBT (85% of targeted STI) and financial KPIs within the Australian business (15%)
- The executive general managers of FLT's UK and The Americas businesses (Chris Galanty and Dean Smith) were incentivised on their businesses' EBIT results; and
- The leader of FLT's global corporate and Asian businesses (Rob Flint) was incentivised on a combination of global corporate EBIT (70%) and earnings generated by the countries he was ultimately responsible for (30%) during the period

No executives were remunerated on external factors.

### Remuneration report – audited (continued)

#### What percentage of overall remuneration is fixed for FLT executives?

All employees earn a mix of fixed and “at risk” remuneration. As employees progress through the ranks and in years where FLT achieves stronger than expected profit growth, the balance of this mix typically shifts to a higher proportion of at risk rewards.

Accordingly, a significant portion of KMP remuneration is at risk and tied to the company’s performance.

#### Does the amount of “at risk” earnings vary from year-to-year?

At the beginning of each year, executives are offered a targeted remuneration package built around a fixed retainer, superannuation and the variable STIs that are paid monthly.

Changes introduced during 2013/14 mean that the fixed retainer and superannuation component will typically represent 50% of the targeted package for KMP.

For example, Graham Turner’s targeted package of \$600,000 for 2014/15 was built upon:

- Fixed pay of \$300,000 (base pay and superannuation); and
- \$300,000 in STIs, based on the company achieving a pre-determined profit growth target. The target for 2014/15 was a PBT of \$400million

Because FLT did not achieve its initial profit target, Mr Turner did not earn his targeted remuneration package and a higher portion of his total salary was, therefore, fixed. Conversely, had FLT exceeded its targets, Mr Turner would have earned more STIs and a smaller portion of his salary would have been fixed.

As illustrated in the example above, actual remuneration for KMP in any given year may, be higher or lower than the executive’s targeted package, which means fixed remuneration may also be higher or lower than 50%.

These variations between actual and targeted remuneration packages will arise because:

- Senior executive STIs are tied to the results that FLT or its key business units achieve. These results cannot be accurately measured or predicted at the start of the year, when targeted packages are set
- Some KMP earn additional BOS interest that is not factored into targeted STI packages. These interest returns are variable (tied to individual business profit) and cannot be quantified at the beginning of the year; and
- KMP may earn additional remuneration via FLT’s LTI programs

While some organisations recommend that at least 50% of annual remuneration should be fixed, FLT’s commitment to rewarding its people for actual outcomes achieved mean that it is impossible to predetermine the total remuneration that an executive will actually earn and, therefore, the level of fixed income that will ultimately represent 50% of earnings.

#### How do the targeted packages that KMP are offered differ from overall earnings?

Targeted packages are built around fixed retainers, superannuation and anticipated STI earnings. STI earnings are tied to the results achieved during the course of the year and can, therefore, exceed or fall short of the anticipated targets.

As outlined above, additional items, including LTIs, BOS returns and long service leave provisions, are also included in the KMP earnings that are disclosed in this financial report.

#### Are non-financial KPIs used in FLT’s LTI and STI programs?

The KPIs that are linked to KMP incentive earnings are generally profit or sales related. While no KMP are currently rewarded on non-financial KPIs, exceptions may arise if the desired outcome is considered integral to the business’s success.

#### How does FLT limit executive STIs?

For KMP, profit-related STIs are theoretically uncapped because they are tied to audited global profit results or results generated by FLT’s core business units.

Effectively, KMP earn a small percentage of global profit or a percentage of their business’s profit. As outlined previously, this percentage is calculated in such a way that the executive will earn his or her profit-related STI target if FLT or the executive’s business achieves its pre-determined profit growth target.

For example, an executive who was targeted to earn \$30,000 in profit-related STIs if FLT achieved a \$300million PBT could be offered a 0.01% share of FLT’s audited profit result.

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## Remuneration report – audited (continued)

While profit-related incentives for KMP are theoretically uncapped, various factors will limit earnings:

- Firstly, STIs are tied to results achieved and are, therefore, limited by the relevant business's earning potential
- Secondly, the percentage of profit the executive earns under his or her KPIs is relatively small. In a year of normal profit growth, executive STIs will not significantly increase; and
- Thirdly, decelerator mechanisms are in place to curb earnings growth in years of exceptionally strong profit growth. The effect of these mechanisms is that the executive STI earnings slow if the company achieves a pre-determined stretch profit target. During 2014/15, the decelerator would have applied had FLT achieved an underlying PBT in excess of \$418million.

As outlined in greater detail elsewhere in this report, the remuneration and nomination committee also has the discretion to adjust KPIs during the course of the year if executive earnings exceed targeted packages and are not aligned to the company's and its shareholders' interests.

### 1v) Executive LTIs

#### What performance hurdles are in place as part of FLT's long-term incentive plans?

In recent years, LTIs for executives have predominantly related to the company's SEOP and SEPRP.

Under these plans, which have now expired, participating executives became entitled to:

- A low tier of 10,000 options (under the SEOP) or 1,500 performance rights (SEPRP) if the company hit its predetermined low tier PBT target
- A mid tier of 25,000 options (SEOP) or 3,500 performance rights (SEPRP) if the company hit its predetermined mid tier PBT target; and
- A top tier of 40,000 options (SEOP) or 5,500 performance rights (SEPRP) if the company hit its predetermined top tier PBT target

No options or performance rights vested if FLT did not achieve its targets. Additional details are included in section 4 of this report.

FLT is currently finalising a new LTI for KMP and other key people with a view to:

- Enhancing the level of ownership among its people.
- Encouraging key people to remain with the business for the long-term; and
- Rewarding key people for creating long-term shareholder value

The program that is currently being considered includes a longer performance period (three years) than the SEOP and SEPRP.

#### Why is PBT used as the performance condition for LTIs and STIs?

FLT believes profit is a fundamental indicator of business performance – a key measure of whether it is providing customers with a product and service they value – and is a logical foundation for long and short-term incentive plans. Key executives (which includes KMP and the executive director) can directly influence profit, it translates directly to earnings per share and dividends, both of which underpin shareholder investment in FLT, and it is an integral component of other performance measures that are commonly used in LTI programs, including Total Shareholder Returns (TSR).

#### Are other LTIs in place?

FLT recognises that its senior executives are integral to its success and are likely to be targeted by competitors globally, both in the travel sector and by retailers generally.

Accordingly, in some cases FLT offers an additional LTI that is aligned to the company's BOS structures worldwide and is designed to lock a small group of key executives into senior roles at specific locations for the medium to long-term. Three KMP have been included in this BOS Multiplier program initially, as outlined in section 3.

Under this program, each participating executive becomes entitled to a one-off BOS return multiplier upon the BOS note's redemption if the participant remains in his or her role, or an equivalent or more senior position, for between five and 15 years.

### Remuneration report – audited (continued)

#### 1vi) Remuneration governance

##### How is executive remuneration monitored to ensure FLT achieves its reward objectives?

FLT's NEDs form the company's remuneration and nomination committee. This committee proactively oversees and formally monitors executive remuneration and provides specific recommendations on remuneration and incentive structures, policies and practices and other employment terms for directors and senior executives.

In making its recommendations, the committee considers:

- External benchmarks against ASX-listed companies, other global travel companies and retailers in general
- Targeted earnings being aligned with targeted PBT growth; and
- Three-five years' salary data for the position to ensure earnings are aligned with results over the longer term

The committee can adjust KPIs at any time in situations where actual earnings are likely to excessively exceed targeted packages or if a material change occurs within the business. For example, the committee could normalise earnings by excluding an acquired business's contributions for the purposes of calculating STI and LTI earnings.

The committee also has the discretion to alter or amend the ESP, SEOP and SEPRP. Under the SEOP's rules, the committee can "alter, modify, add to or repeal any provisions of the SEOP's rules in any way it believes is necessary or desirable to better secure or protect the company's rights". Subject to some conditions, the committee can, at any time, "amend, add to, revoke or substitute all or any of the provisions of the SEPRP rules".

Under both the SEOP and SEPRP, amendments can be made if the company is subject to a takeover bid or if the company's capital is consolidated, subdivided, returned, reduced or cancelled.

##### Given that a large portion of overall remuneration is at risk, what safeguards are in place to protect and grow shareholder value?

As executive incentive earnings are predominantly linked to PBT results, they are subject to rigorous internal and external checks and reviews.

Options and performance rights were tied to PBT results and vested each August, when FLT's auditors formally signed-off on the company's accounts for the relevant period.

STI payments are made monthly and are adjusted during future periods if required.

The importance FLT places on year-on-year profit growth – in its STI programs, BOS and its option and performance rights plans – also encourages longer term thinking and ensures executives are focused on delivering sustainable results for the future, as plans and strategies implemented during the current year will drive future earnings.

As outlined previously, the remuneration and nomination committee proactively monitors earnings and can alter STIs, in addition to having discretion to amend, add to, revoke or substitute elements of the SEPRP and SEOP in certain circumstances.

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## Remuneration report – audited (continued)

### 2 Details of remuneration

After recording solid year-on-year profit growth during 2013/14, FLT's results for 2014/15 were below expectations. Accordingly, overall remuneration provided to KMP decreased during the year.

As expected, STIs for KMP whose earnings were tied to Australian or global results fell short of targeted earnings. While not part of an executive's take-home salary, provisions under the BOS Multiplier program also decreased significantly in some instances.

The following tables outline KMP remuneration details for the company and consolidated entity consisting of Flight Centre Travel Group Limited and the entities it controlled for the year ended 30 June 2015. Board and KMP are as defined in AASB 124 Related Party Disclosures and are responsible for planning, directing and controlling the entity's activities.

#### Board of Directors

##### *Non-Executive Directors*

P.R. Morahan (resigned 1 September 2014)

G.W. Smith – Chairperson

J.A. Eales

R.A. Baker

C.L. Kelly (appointed 1 September 2014)

##### *Executive Director*

G.F. Turner

#### Other Group KMP

R. Flint – Executive General Manager – Global Corporate and Asia

M. Waters-Ryan – Chief Operating Officer

A. Flannery – Chief Financial Officer\*

C. Galanty – Executive General Manager – UK

D.W. Smith – Executive General Manager – The Americas

\* On 4 August 2015, FLT announced that A. Flannery the chief financial officer (CFO), will transition out of the CFO role into a new role within FLT's corporate business. A transition plan for the CFO role is in place with the appointment of a new CFO, A. Campbell.

#### Parent entity

With the exception of C. Galanty and D.W. Smith, the executives listed above were also Parent Entity executives.

#### Service agreements

No fixed-term service agreements are in place with FLT's directors or KMP. Senior executives are bound by independent and open-ended employment contracts that are reviewed annually.

The company does not pay sign-on bonuses and requires KMP to provide at least 12 weeks written notice of their intention to leave FLT. Termination payments are assessed on a case-by-case basis. If the terminated senior executive has a BOS note (refer to note D2), FLT will also be required to repay the BOS note's face value to the executive, in line with the redemption rules that apply to the BOS program generally. FLT is not bound, under the terms of any executive's employment contract, to provide termination benefits beyond those that are required by law.

As is the case for all employees, KMP employment may be terminated immediately for serious misconduct.

## DIRECTORS' REPORT continued

### Remuneration report - audited (continued)

#### KMP

The following table shows the remuneration actually paid and payable to KMP in respect of performance for the year ended 30 June 2015. Remuneration amounts are determined in accordance with the requirements of the *Corporations Act 2001* are set out in the table below and in conjunction with the table on page 21 of this report.

Name	Paid and payable remuneration				Total paid and payable remuneration \$
	Short-term employee benefits			Post employment benefits <sup>1</sup>	
	Cash salary and fees \$	Short term incentive \$	BOS interest <sup>2</sup> \$	Super-annuation \$	
<b>Non-executive directors</b>					
<b>P.R. Morahan (resigned 1 September 2014)</b>					
2015	31,323	-	-	2,976	34,299
2014	183,761	-	-	16,998	200,759
<b>G.W. Smith</b>					
2015	176,094	-	-	16,729	192,823
2014	137,761	-	-	12,743	150,504
<b>P.F. Barrow (resigned 19 September 2013)</b>					
2015	-	-	-	-	-
2014	34,440	-	-	3,186	37,626
<b>J.A. Eales</b>					
2015	137,761	-	-	13,087	150,848
2014	137,761	-	-	12,743	150,504
<b>R.A. Baker (appointed 20 September 2013)</b>					
2015	137,446	-	-	13,057	150,503
2014	106,902	-	-	9,888	116,790
<b>C.L. Kelly (appointed 1 September 2014)</b>					
2015	114,801	-	-	10,906	125,707
2014	-	-	-	-	-
<b>Executive directors</b>					
<b>G.F. Turner</b>					
2015	282,225	240,000	-	18,783	541,008
2014	282,225	313,500	-	17,775	613,500
<b>Other group KMP</b>					
<b>R. Flint</b>					
2015	207,225	181,885	172,175	18,783	580,068
2014	207,225	212,929	357,290	17,775	795,219
<b>M. Waters-Ryan</b>					
2015	231,217	200,002	536,125	18,783	986,127
2014	232,225	267,883	564,564	17,775	1,082,447
<b>A. Flannery</b>					
2015	282,225	240,000	-	18,783	541,008
2014	282,225	313,500	-	17,775	613,500
<b>C. Galanty</b>					
2015	282,752	399,503	694,256	-	1,376,511
2014	265,440	353,623	554,350	-	1,173,413
<b>D.W. Smith</b>					
2015	297,825	408,591	255,709	-	962,125
2014	244,148	312,776	187,923	-	744,847
<b>Total KMP compensation</b>					
2015	2,180,894	1,669,981	1,658,265	131,887	5,641,027
2014	2,114,113	1,774,211	1,664,127	126,658	5,679,109

<sup>1</sup> No termination benefits (leave entitlements and redundancy payments owing to employees at the date of termination) were paid during the year (2014: nil).

<sup>2</sup> BOS interest shown above does not take into account financial liabilities (principal repayments) that may relate to this investment.



## Remuneration report – audited (continued)

Non-executive directors receive fixed fees for service, do not receive short or long-term incentives and do not participate in the BOS or BOS Multiplier program. There are no components of their remuneration that are at risk.

Name	Total paid and payable remuneration \$	Long-term employee benefits		Share-based payments	Total remuneration \$	Percentage performance related <sup>4</sup> %
		Long service leave <sup>1</sup> \$	BOS Multiplier provision <sup>2</sup> \$	Equity settled plans <sup>3</sup> \$		
<b>Executive directors</b>						
<b>G.F. Turner</b>						
2015	541,008	(22,770)	-	-	518,238	46
2014	613,500	43,573	-	-	657,073	48
<b>Other group KMP</b>						
<b>R. Flint</b>						
2015	580,068	(5,466)	-	-	574,602	62
2014	795,219	17,016	-	6,088	818,323	71
<b>M. Waters-Ryan</b>						
2015	986,127	(9,676)	(650,036)	-	326,415	26
2014	1,082,447	26,553	380,000	4,342	1,493,342	82
<b>A. Flannery</b>						
2015	541,008	(72)	-	-	540,936	44
2014	613,500	28,605	-	4,342	646,447	49
<b>C. Galanty</b>						
2015	1,376,511	-	614,488	-	1,990,999	86
2014	1,173,413	-	675,000	-	1,848,413	86
<b>D.W. Smith</b>						
2015	962,125	-	200,616	2,117	1,164,858	74
2014	744,847	-	175,000	1,937	921,784	73
<b>Total executive director and KMP compensation</b>						
2015	4,986,847	(37,984)	165,068	2,117	5,116,048	
2014	5,022,926	115,747	1,230,000	16,709	6,385,382	

<sup>1</sup> Long service leave (LSL) includes amounts accrued during the year. LSL provisions are linked to overall executive remuneration (which consists of the short-term benefits noted above) and, therefore, vary from year to year. Movements are based on total salary which is dependent on performance during the year. Negative amounts are sometimes recognised, as provisions naturally adjust after periods of stronger than anticipated growth.

<sup>2</sup> BOS Multiplier program provisions are linked to profit and, therefore, vary from year to year. Information on the BOS program is included in section 3.

<sup>3</sup> Share-based payments represent amounts expensed in relation to options/rights granted under the SEOP/SEPRP, and D.W.Smith's are matched shares under the ESP (refer to section 4).

<sup>4</sup> Performance related percentage calculated as the sum of the short-term incentive and BOS interest (as disclosed in the table on page 20), and BOS Multiplier divided by total remuneration.

Remuneration consisting of share options and performance rights for the year	2015 %	2014 %
R. Flint	0	1
M. Waters-Ryan	0	0
A. Flannery	0	1

To encourage key executives to continue in their roles for the long-term, various KMP are in line to earn multipliers on their BOS returns (upon redemption) if they achieve certain longevity targets. The targets for participating KMP are outlined in section 3 of this report.

## Remuneration report – audited (continued)

### Details of remuneration paid and forfeited: cash bonuses, options and performance rights

For each incentive and grant of options or performance rights 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 bonus is payable in future years. No options or performance rights will vest if the conditions are not satisfied, hence the minimum value of the option or performance right yet to vest is nil. The maximum value of the options or performance rights yet to vest has been estimated as the amount of the grant date fair value that could be expensed.

Other group KMP	Incentives		Options and Performance Rights					
	Paid %	Forfeited %	Year granted	Vested %	Forfeited %	Financial years in which options/ performance rights may vest	Minimum total value of grant yet to vest \$	Maximum total value of grant yet to vest \$
R. Flint	81%	19%	2011	100%	0%	2012-2015	nil	nil
M. Waters-Ryan	80%	20%	2009	100%	0%	2011-2015	nil	nil
A. Flannery	80%	20%	2009	100%	0%	2011-2015	nil	nil
C. Galanty	100%	0%	-	-	-	-	-	-
D.W. Smith	100%	0%	-	-	-	-	-	-

### 3 Long-term incentives: BOS return multiples on redemption

To encourage key executives to continue in their roles for the long-term, various KMP are in line to earn multipliers on their BOS returns (upon redemption) if they achieve certain length of service targets.

Three KMP currently participate in this program:

- Melanie Waters-Ryan, FLT's chief operating officer and leader of the company's Australian business
- Chris Galanty, FLT's UK executive general manager who also oversees the South African and Irish operations; and
- Dean Smith, executive general manager of FLT's business in the Americas

Under the program's terms, if the BOS note is redeemed between five and ten years, the BOS holder will be entitled to a one-off payment equivalent to the BOS return for the last full financial year before the date of redemption, multiplied by five, being the applicable redemption multiple.

If the BOS note is redeemed after 10 years, the holder will be entitled to a one-off payment equivalent to the BOS return for the last full financial year before the date of redemption, multiplied by 10, the applicable redemption multiple.

For certain BOS holders, including Ms Waters-Ryan and Mr Smith, the BOS note's 10th anniversary is its final maturity date and it must then be redeemed.

For Mr Galanty, the BOS note matures after 15 years and it must then be redeemed. In this instance, the BOS note holder is eligible for a one-off payment equivalent to the BOS return for the last full financial year before the date of redemption, multiplied by 15, the applicable redemption multiple.

For KMP, no redemption multiple will be paid if redemption occurs before the note's fifth anniversary.

If the BOS note is redeemed between five and 15 years as the result of the holder transferring into a comparable or more senior role within the company, an affiliate or a related body corporate, the redemption multiple will be the number of full years the BOS note has been held. This redemption multiple will then be applied to the holder's BOS returns for the last full financial year before the date of redemption. The same calculation will apply if a material part of the holder's business unit is sold.

The BOS's Face Value is guaranteed and cannot decrease in value and will always be deducted from the final redemption multiple payment.

## Remuneration report – audited (continued)

Other group KMP	BOS Multiplier Program					
	Grant Date	Vested %	Forfeited %	Financial years in which BOS Return Multiple may vest	Minimum total BOS Return Multiple	Maximum total BOS Return Multiple*
M. Waters-Ryan	1 July 2012	-	-	2018-2023	nil	10 times
C. Galanty	1 July 2010	-	-	2016-2026	nil	15 times
D.W. Smith	1 July 2010	-	-	2016-2021	nil	10 times

\* The BOS Holder will be entitled to and paid an amount equivalent to his or her BOS return for the last full financial year before the redemption date, multiplied by the applicable redemption multiple. As the BOS return multiple is dependent on profit during the vesting period, the maximum amount cannot be reliably estimated.

### 4 Share-based compensation

Options and performance rights have previously been granted to executives, including KMP, at the board's discretion under the SEOP and SEPRP respectively. Both plans have now expired and were not offered during 2014/15. Options that were available under the SEOP to four senior executives were granted on 29 June 2009. Performance rights, under the SEPRP established in April 2010, were offered to two senior executives. One executive subsequently forfeited rights in the year ending 30 June 2013.

#### Terms and conditions

Terms and conditions of each grant of options and performance rights affecting remuneration in the previous, this or future reporting periods are set out below:

#### General terms

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

The assessed fair value at grant date of options and performance rights granted to the individuals is allocated equally over the period from grant date to vesting date. This amount is included in the remuneration report compensation tables. A Black-Scholes option pricing model is used to individually determine the fair values at grant date.

There were no options or performance rights granted during the year and there were no modifications to the SEOP or SEPRP during the year. Therefore, there have been no changes to the fair value calculation for options or performance rights.

When exercisable, each option and performance right is convertible into one ordinary FLT share.

The plan's rules also stipulate that the number of shares resulting from exercising all unexercised options cannot exceed 5% of the company's issued capital (currently less than 1%). Unissued ordinary shares of FLT under option or performance right at the date of this report are as follows:

Date granted	Expiry date	Issue price of shares	Number under performance right/option
29 June 2009	30 June 2015	\$10.00	nil
12 August 2011	30 June 2015	\$0.00	nil

## Remuneration report - audited (continued)

### Senior Executive Option Plan (SEOP)

Under the plan's rules, options are granted for no consideration and are exercisable over FLT's fully paid ordinary shares.

Grant date	Date vested and exercisable	Expiry date	Exercise price	Value per option at grant date
29 June 2009	Five vesting tranches of up to 200,000 each granted at no consideration. Each tranche vests upon release of the audited financial statements at each year-end, from 30 June 2010 to 30 June 2014, provided pre-determined profit targets are met.	30-Jun-15	\$10.00	\$2.17 - \$2.32

### Senior Executive Performance Rights Plan (SEPRP)

Under the plan's rules, upon vesting, the performance rights will be automatically exercised into an equal number of FLT shares.

Grant date	Date vested and exercisable	Expiry date	Exercise price	Value per right at grant date
12 August 2011	Four vesting tranches of up to 5,500 each granted at no consideration. Each tranche vests upon release of the audited financial statements at each year end, from 30 June 2011 to 30 June 2014, provided pre-determined profit targets are met.	30-Jun-15	\$0.00	\$16.24- \$18.43

### Performance targets

No targets were set for 2014/15, as 2013/14 was the final year for both the SEOP and SEPRP.

### Option and performance rights vested

Details of options and performance rights provided as remuneration to KMP are set out below.

Other group KMP	Number vested during year	
	2015	2014
<b>Options</b>		
M. Waters-Ryan	10,000	40,000
A. Flannery	10,000	40,000
<b>Performance Rights</b>		
R. Flint	1,500	5,500

The relevant portion of the expense relating to these options and performance rights has been recognised during the year ended 30 June 2015, refer to note D3.

Options and performance rights relating to 2013/14 vested on August 27, 2014 when FLT released audited accounts for the year ended 30 June 2014.

## Remuneration report – audited (continued)

### Option and performance rights holdings

The number of options and performance rights over ordinary FLT shares held during the financial year by FLT's group KMP is set out below:

Other group KMP	Balance at the start of the year	Exercised	Expired or forfeited	Balance at the end of the year	Vested and exercisable	Unvested
<b>Options</b>						
M. Waters-Ryan	80,000	(50,000)	(30,000)	-	-	-
A. Flannery	125,000	(95,000)	(30,000)	-	-	-
<b>Performance Rights</b>						
R. Flint	5,500	(1,500)	(4,000)	-	-	-

As no options or performance rights were granted during the year, the value of options or performance rights granted is \$ nil.

### Shareholdings

The number of ordinary shares held during the financial year by FLT's directors and KMP is set out below:

2015	Balance at the start of the year	Received during the year on the exercise of options/rights	Other changes during the year	Balance at the end of the year
<b>FLT directors</b>				
P.R. Morahan	17,915	-	(7,684)	10,231
G.W. Smith	15,000	-	-	15,000
J.A. Eales	2,000	-	1,000	3,000
R.A. Baker	-	-	2,000	2,000
C.L. Kelly	-	-	400	400
G.F. Turner	15,244,487	-	-	15,244,487
<b>Other group KMP</b>				
R. Flint <sup>1</sup>	-	1,500	(1,500)	-
M. Waters-Ryan <sup>3</sup>	70,725	50,000	(25,000)	95,725
A. Flannery <sup>3</sup>	256	95,000	(66,229)	29,027
C. Galanty	2,002	-	-	2,002
D.W. Smith <sup>2</sup>	1,050	-	361	1,411

<sup>1</sup> R. Flint participated in the SEPRP. Upon exercise of the performance rights, \$0.00 per share was paid and the value at exercise date was \$70,530, determined as the rights' intrinsic value at that date.

<sup>2</sup> D.W. Smith participated in the ESP and was issued with 361 ordinary shares. These were issued under the same terms and conditions as all other ESP participants.

<sup>3</sup> M. Waters-Ryan and A. Flannery participated in the SEOP. M. Waters-Ryan exercised 50,000 options and A. Flannery exercised 95,000 options during the year.

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

Other group KMP	Date of exercise of options/rights	Number of ordinary shares issued on exercise of options/rights	Amount paid per share	Value at exercise date*
M. Waters-Ryan	19 March 2015	50,000	\$10.00	\$1,542,000
A. Flannery	18 September 2014	95,000	\$10.00	\$3,339,250
R. Flint	27 August 2014	1,500	-	\$70,530

\* The value at the exercise date of options that were granted as part of remuneration and were exercised during the year has been determined as the options' intrinsic value at that date.

## Remuneration report – audited (continued)

### 5 Loans to key management personnel

FLT is a joint venture partner in Pedal Group Pty Ltd. The other joint venture partners are related parties, namely Graham Turner's family company, Gainsdale Pty Ltd (25%), and Graham Turner's son Matthew Turner (19%). The remaining 6% is held by employees who are not considered related parties.

Loan to Pedal Group	Notes	2015 \$'000
<b>Beginning of the year</b>		10,693
Loans advanced		-
Loans repaid		(2,305)
Debt to equity conversion <sup>1</sup>		(7,500)
Interest charged		162
<b>End-of-year</b>	C3	1,050

<sup>1</sup> During the year, FLT converted related party loans of \$7,500,000 with Pedal Group Pty Ltd to equity under a debt to equity conversion arrangement. A total of \$15,000,000 additional equity was issued by Pedal Group Pty Ltd with our joint venture partners also converting \$7,500,000. FLT's relative ownership interest remained the same.

No provision for doubtful debts has been raised in relation to the outstanding balance.

The loan was made on normal commercial terms and conditions and at a market rate, except that the repayment terms are 10 years. The interest rate on the loan during the year ranged from 3.89% - 4.45%.

### Indemnification and insurance of officers

An Officers' Deed of Indemnity, Access and Insurance is in place for directors, KMP, the company secretary and some other executives. Liabilities covered 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. Disclosure of premiums paid is prohibited under the insurance contract.

### Indemnification of auditor

To the extent permitted by law, the company has agreed to indemnify its auditor, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

### Proceedings on behalf of the company

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 (Ernst & Young) for audit and non-audit services provided during the year are set out in note F11.

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 auditor's provision of non-audit services did not compromise the Act's independence requirements because none of the services undermine the general principles relating to auditor independence as set out in APES110 Code of Ethics for Professional Accountants.

The audit committee reviewed all non-audit services to ensure they did not impact the auditor's impartiality and objectivity.

### 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 28.

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## 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.

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



G.F. Turner

Director

BRISBANE

27 August 2015

# AUDITOR'S INDEPENDENCE DECLARATION

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## Auditor's independence declaration to the directors of Flight Centre Travel Group Limited

In relation to our audit of the financial report of Flight Centre Travel Group Limited for the financial year ended 30 June 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

*Ernst & Young*

Ernst & Young

*Alison de Groot*

Alison de Groot

Partner

27 August 2015



# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the year ended 30 June	
		2015 \$'000	2014 \$'000
<b>Revenue</b>			
Revenue from the sale of travel services	A2	2,363,090	2,207,450
Other revenue	A2	33,899	37,119
<b>Total revenue</b>		<b>2,396,989</b>	<b>2,244,569</b>
Other income	A3	6,278	5,127
<b>Expenses</b>			
Employee benefits	F1	(1,283,661)	(1,151,874)
Sales and marketing		(180,236)	(168,950)
Rental expense relating to operating leases	F1	(143,237)	(128,846)
Amortisation and depreciation	B7	(54,103)	(53,777)
Finance costs	A4	(26,115)	(32,987)
Share of profit / (loss) of joint ventures accounted for using the equity method	E1	235	1,346
Impairment charge	F4/F5	-	(61,300)
Other expenses	A4	(349,853)	(329,528)
<b>Profit before income tax expense</b>		<b>366,297</b>	<b>323,780</b>
Income tax expense	F10	(109,744)	(116,862)
<b>Profit attributable to members of FLT</b>		<b>256,553</b>	<b>206,918</b>
<b>Other comprehensive income:</b>			
<b>Items that may be reclassified to profit or loss</b>			
Changes in the fair value of available-for-sale financial assets	F9	786	579
Net exchange differences on translation of foreign operations	F9	62,079	5,568
Income tax on items of other comprehensive income	F10	797	127
<b>Other comprehensive income</b>		<b>63,662</b>	<b>6,274</b>
<b>Total comprehensive income for the year attributable to members of FLT</b>		<b>320,215</b>	<b>213,192</b>
<b>Earnings per share for profit attributable to the ordinary equity holders of the company:</b>			
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	F2	254.7	205.8
Diluted earnings per share	F2	254.3	205.5

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

## STATEMENT OF CASH FLOWS

	Notes	For the year ended 30 June	
		2015 \$'000	2014 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (including GST)		2,337,380	2,154,899
Payments to suppliers and employees (including GST)		(1,868,032)	(1,782,486)
Royalties received		509	509
Interest received		29,449	32,345
Interest paid		(26,716)	(33,667)
Income taxes paid		(110,061)	(144,507)
<b>Net cash inflow / (outflow) from operating activities</b>	B1	<b>362,529</b>	<b>227,093</b>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiary and joint venture, net of cash acquired	A5/E1	(527)	(2,033)
Payments for property, plant and equipment	B7/F4	(72,496)	(46,213)
Payments for intangibles	B7/F5	(10,354)	(9,214)
Payments for the purchase of investments in available-for-sale assets		(39,000)	(18,000)
Proceeds from sale of investments in available-for-sale assets		5,460	20,138
Dividends received from joint ventures		673	-
Loans advanced / repaid to related parties	E2	(342)	(4,600)
Loans repaid by related parties	E2	2,305	1,775
<b>Net cash inflow / (outflow) from investing activities</b>		<b>(114,281)</b>	<b>(58,147)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		23,825	6,402
Repayment of borrowings		(41,251)	(7,886)
Proceeds from issue of shares	D4	4,697	3,126
Dividends paid to company's shareholders	B6	(153,108)	(146,784)
<b>Net cash inflow / (outflow) from financing activities</b>		<b>(165,837)</b>	<b>(145,142)</b>
Net increase / (decrease) in cash held		82,411	23,804
Cash and cash equivalents at the beginning of the financial year		1,261,682	1,227,019
Effects of exchange rate changes on cash and cash equivalents		33,892	10,859
<b>Cash and cash equivalents at end of the financial year</b>	B1	<b>1,377,985</b>	<b>1,261,682</b>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

## BALANCE SHEET

	Notes	As at 30 June	
		2015 \$'000	2014 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	B1	1,377,985	1,261,682
Available-for-sale financial assets	B2	75,661	41,240
Trade and other receivables	F3	683,040	576,472
Current tax receivables		9,895	4,286
Inventories		1,789	1,044
Derivative financial instruments	C2	4,330	-
Other financial assets	C3	-	2,825
<b>Total current assets</b>		<b>2,152,700</b>	<b>1,887,549</b>
<b>Non-current assets</b>			
Property, plant and equipment	F4	196,300	160,916
Intangible assets	F5	386,249	304,575
Investments accounted for using the equity method	E1	13,905	5,451
Deferred tax assets	F10	36,135	42,704
Other financial assets	C3	2,677	9,192
<b>Total non-current assets</b>		<b>635,266</b>	<b>522,838</b>
<b>Total assets</b>		<b>2,787,966</b>	<b>2,410,387</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	F6	990,500	961,694
Contingent consideration	A6	12,304	-
Financial liabilities at fair value through profit or loss	F7	384,039	211,306
Borrowings	B4	32,806	42,923
Provisions	F8	26,667	22,643
Current tax liabilities		6,184	13,223
Derivative financial instruments	C2	-	9,432
<b>Total current liabilities</b>		<b>1,452,500</b>	<b>1,261,221</b>
<b>Non-current liabilities</b>			
Trade and other payables	F6	22,668	18,870
Contingent consideration	A6	6,420	-
Borrowings	B4	-	1,955
Provisions	F8	36,122	30,196
Deferred tax liabilities	F10	135	347
<b>Total non-current liabilities</b>		<b>65,345</b>	<b>51,368</b>
<b>Total liabilities</b>		<b>1,517,845</b>	<b>1,312,589</b>
<b>Net assets</b>		<b>1,270,121</b>	<b>1,097,798</b>
<b>Equity</b>			
Contributed equity	D4	395,677	390,929
Reserves	F9	36,959	(27,171)
Retained profits		837,485	734,040
<b>Total equity</b>		<b>1,270,121</b>	<b>1,097,798</b>

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

## STATEMENT OF CHANGES IN EQUITY

Notes	For the year ended 30 June			
	Contributed equity \$'000	Reserves \$'000	Retained profits \$'000	Total \$'000
<b>Balance at 1 July 2013</b>	387,757	(35,469)	673,906	1,026,194
Profit for the year	-	-	206,918	206,918
Other comprehensive income	-	6,274	-	6,274
<b>Total comprehensive income for the year</b>	-	6,274	206,918	213,192

### Transactions with owners in their capacity as owners:

Employee share-based payments	D4/F9	3,172	2,024	-	5,196
Dividends provided for or paid	B6	-	-	(146,784)	(146,784)
<b>Balance at 30 June 2014</b>		390,929	(27,171)	734,040	1,097,798

Profit for the year	-	-	256,553	256,553
Other comprehensive income	-	63,662	-	63,662
<b>Total comprehensive income for the year</b>	-	63,662	256,553	320,215

### Transactions with owners in their capacity as owners:

Employee share-based payments	D4/F9	4,748	468	-	5,216
Dividends provided for or paid	B6	-	-	(153,108)	(153,108)
<b>Balance at 30 June 2015</b>		395,677	36,959	837,485	1,270,121

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

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## NOTES TO THE FINANCIAL STATEMENTS continued

### Significant matters in the current reporting period

The following significant events and transactions occurred during or after the end of the reporting period:

#### Acquisitions

- On 27 August 2014, FLT acquired 90% of the voting shares (and an option over the remaining 10%) of Top Deck Tours Limited, an unlisted company based in the United Kingdom specialising in tour operations, for potential consideration of up to £28,663,000 (\$51,983,000) for 100% ownership. Refer to note A5 for further details.
- On 10 September 2014, FLT completed an agreement with Thien Minh Group (TMG) to work together in joint ventures (JV) to expand TMG's Buffalo Tours destination management business throughout Asia. FLT contributed USD\$1,470,000 (\$1,584,000) in capital in exchange for a 49% interest in each of the JV entities. Refer to note E1.
- Subsequent to year-end, on 17 July 2015, FLT completed the acquisition of the corporate travel business Koch Overseas based in Mexico City for consideration of USD\$1,400,000 (\$1,877,000) for 100% ownership. The business is closely aligned to FLT and was formerly part of the global FCM Travel Solutions network. Refer to note H3 for further details.

#### Debt retirement

- On 7 November 2014, FLT injected equity into FLT's India business to retire \$19,000,000 in external borrowings related to the India corporate travel business and to lower overall interest expense. Refer to note B4.
- During the year, FLT converted related party loans of \$7,500,000 with Pedal Group Pty Ltd to equity under a debt to equity conversion arrangement. A total of \$15,000,000 additional equity was issued by Pedal Group Pty Ltd with our joint venture partners also converting \$7,500,000. FLT's relative joint venture ownership interest remained the same. Refer to notes C3, E1 and E2.
- On 6 March 2015, FLT's South Africa business settled its external loan of \$2,200,000 for the head office building.

#### Other matters

- On 31 July 2015, FLT won its appeal in the long running competition law test case initiated against it by the ACCC in relation to alleged breaches of the Trade Practices Act 1974. The Full Court of the Federal Court of Australia overturned the judgment that was handed down against FLT in December 2013 and the ACCC was ordered to pay FLT's legal costs for both the initial case and for the subsequent appeal. The judgment in FLT's favour means the \$11,000,000 in penalties were repaid to the company (interest yet to be repaid), and will be included in its financial results for 2015/16. Refer to notes H2 and H3.

The case was initially heard in October 2012 and judgment was delivered in the ACCC's favour in December 2013. A subsequent penalty hearing concluded in February 2014, with \$11,000,000 in penalties imposed by the Federal Court that FLT paid in May 2014 and was reflected in the 2013/14 results.

- In the prior year ended 30 June 2014, FLT's PBT included a one-off gain of \$19,600,000 related to the Flight Centre Global Product (FCGP) wholesale business. The gain was brought about by system improvements, which allowed FLT to accurately capture an additional component of margin within the FCGP business at the time of sale, rather than after the customer had travelled. FLT generally recognises revenue at the point of sale, so the change brought FCGP in line with FLT policy. Refer to note A2.

## A Financial overview

This section provides information that is most relevant to explaining the group's performance during the year, and where relevant, the accounting policies that have been applied and significant estimates and judgments made.

- A1 Segment information
- A2 Revenue
- A3 Other income
- A4 Expenses
- A5 Business combinations
- A6 Contingent consideration

### A1 Segment information

#### (a) Identification and description of segments

FLT has identified its operating segments based on the internal reports that are reviewed and used by the board and global executive team (chief operating decision makers) in assessing performance and in determining resource allocation. The company's global executive team currently consists of the following members:

- Managing director
- Chief financial officer
- Chief operating officer
- Executive general manager – UK
- Executive general manager – The Americas; and
- Executive general manager – global corporate and Asia

FLT and its controlled entities operate predominantly in the sale of travel and travel-related services. The board and executive team consider, organise and manage the business from a geographic perspective, being the country of origin where the service was provided. Discrete financial information about each of these operating businesses is reported monthly to the board and executive team, via a group Financial Report.

#### Rest of world

Rest of world segment includes the aggregation of a number of geographic businesses where the revenues are individually less than 10% of combined group revenue, and consolidation eliminations. These businesses have similar economic characteristics, including gross margins and business models.

#### Other segment

Other segment includes Brisbane-based support businesses that support the global network. It also includes individual businesses, not part of a larger group, that report directly to the Brisbane head office.

Top Deck is included in the Other Segment as it reports to Travel Services, a global team based in the Brisbane head office.

#### (b) Major customers

FLT provides services to and derives revenue from a number of customers. The company does not derive more than 10% of total consolidated revenue from any one customer.

#### (c) Understanding the segment result

##### Segment revenue

Sales between segments are carried out at arm's length and are eliminated on consolidation.

Revenue from external customers is measured in the same way as the statement of profit or loss and other comprehensive income.

## NOTES TO THE FINANCIAL STATEMENTS continued

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### A1 Segment information (continued)

#### Alternative profit measures

In addition to using profit as a measure of the group and its segments' financial performance, FLT uses statutory EBIT and statutory EBITDA. These measures are not defined under IFRS and are, therefore, termed "Non-IFRS" measures.

Statutory EBIT is defined as group profit before net interest and tax, while statutory EBITDA is earnings before net interest, tax, depreciation and amortisation. These non-IFRS measures are commonly used by management, investors and financial analysts to evaluate companies' performance.

The segment result is adjusted EBIT. FLT's chief operating decision makers use this adjusted EBIT measure to assess the group's performance. The adjustments take into account various operational items that are integral to the business's performance, including interest paid on the BOS unsecured note program and finance leases and interest received on cash generated by FLT's wholesale businesses. Further adjustments may also occur to reflect specific items that are not trading related.

A reconciliation of these non-IFRS measures and specific items to the nearest measure prepared in accordance with IFRS is included in the tables on the following pages.

#### Segment assets and liabilities

The amounts provided to the board and executive team in respect of total assets and total liabilities are measured in a manner consistent with that of the financial statements. These reports do not allocate total assets or total liabilities based on the operations of each segment or by geographical location.

FLT has not disclosed non-current assets by geographical location as this information is not provided to and/or reviewed by the chief operating decision makers nor produced for other reasons, and as such, the cost of developing and providing this information exceeds the attributable benefits.

#### Total transaction value (TTV)

TTV is unaudited, non-IFRS financial information and does not represent revenue in accordance with Australian Accounting Standards. TTV represents the price at which travel products and services have been sold across the group's various operations, as agent for various airlines and other service providers, plus revenue from other sources. FLT's revenue is, therefore, derived from TTV.

#### Shop numbers

Shop numbers are unaudited, non-IFRS, non-financial information. This information has been included to aid understanding of the relevant balances. The balances represent the number of shops at the end of the period.

#### (d) Segment information presented to the board of directors and global executive team

The segment information provided to the board and executive team for the reportable segments for the years ended 30 June 2015 and 30 June 2014 is shown in the tables on the following pages.



## A1 Segment information (continued)

30 June 2015	Australia \$'000	United States \$'000	United Kingdom \$'000	Rest of World \$'000	Other Segment <sup>3</sup> \$'000	Total \$'000
<b>Segment information</b>						
TTV <sup>1</sup>	9,560,951	2,454,417	1,893,059	3,413,083	276,420	17,597,930
Total segment revenue	1,357,560	291,645	285,879	417,461	200,987	2,553,532
Inter-segment revenue	(122,977)	(4,666)	(17,724)	(11,176)	-	(156,543)
<b>Revenue from external customers</b>	<b>1,234,583</b>	<b>286,979</b>	<b>268,155</b>	<b>406,285</b>	<b>200,987</b>	<b>2,396,989</b>
Statutory EBITDA	304,600	25,209	58,154	43,592	(14,588)	416,967
Depreciation and amortisation	(32,906)	(3,078)	(5,767)	(10,261)	(2,091)	(54,103)
<b>Statutory EBIT</b>	<b>271,694</b>	<b>22,131</b>	<b>52,387</b>	<b>33,331</b>	<b>(16,679)</b>	<b>362,864</b>
Interest income	1,259	428	1,603	6,818	19,440	29,548
BOS interest expense	(16,462)	(331)	(2,568)	(3,603)	(1,293)	(24,257)
Other interest expense	(914)	(460)	(267)	(3,047)	2,443	(2,245)
Other non-material items	403	-	(18)	2	-	387
<b>Net profit before tax and royalty</b>	<b>255,980</b>	<b>21,768</b>	<b>51,137</b>	<b>33,501</b>	<b>3,911</b>	<b>366,297</b>
Royalty	31,235	-	(23,259)	(7,976)	-	-
<b>Net profit before tax and after royalty</b>	<b>287,215</b>	<b>21,768</b>	<b>27,878</b>	<b>25,525</b>	<b>3,911</b>	<b>366,297</b>
<b>Reconciliation of Statutory EBIT to Adjusted EBIT</b>						
Statutory EBIT	271,694	22,131	52,387	33,331	(16,679)	362,864
Interest income <sup>2</sup>	1,251	-	-	2,311	11,717	15,279
BOS interest expense	(16,462)	(331)	(2,568)	(3,603)	(1,293)	(24,257)
Net foreign exchange (gains) / losses on intercompany loans	260	-	(24)	-	(1,460)	(1,224)
Other non-material items	-	(394)	(248)	620	(1,343)	(1,365)
<b>Adjusted EBIT / Segment Result</b>	<b>256,743</b>	<b>21,406</b>	<b>49,547</b>	<b>32,659</b>	<b>(9,058)</b>	<b>351,297</b>
Shop numbers <sup>1</sup>	1,511	314	279	718	3	2,825

<sup>1</sup> TTV and shop numbers are unaudited, non-IFRS measures.

<sup>2</sup> Land wholesale interest only

<sup>3</sup> Top Deck is included in the Other Segment as it reports to Travel Services, a global team based in the Brisbane head office.

# NOTES TO THE FINANCIAL STATEMENTS continued

## A1 Segment information (continued)

30 June 2014	Australia \$'000	United States \$'000	United Kingdom \$'000	Rest of World \$'000	Other Segment <sup>4</sup> \$'000	Total \$'000
<b>Segment information</b>						
TTV <sup>1</sup>	9,115,662	2,088,909	1,533,138	3,116,524	194,815	16,049,048
Total segment revenue	1,332,261	246,011	239,005	380,156	183,633	2,381,066
Inter-segment revenue	(110,418)	1,459	(14,707)	(12,831)	-	(136,497)
<b>Revenue from external customers</b>	<b>1,221,843</b>	<b>247,470</b>	<b>224,298</b>	<b>367,325</b>	<b>183,633</b>	<b>2,244,569</b>
Statutory EBITDA	340,872	2,280	46,849	31,691	(43,315)	378,377
Depreciation and amortisation	(30,589)	(7,589)	(4,745)	(9,681)	(1,173)	(53,777)
<b>Statutory EBIT</b>	<b>310,283</b>	<b>(5,309)</b>	<b>42,104</b>	<b>22,010</b>	<b>(44,488)</b>	<b>324,600</b>
Interest income	691	363	1,159	4,348	25,606	32,167
BOS interest expense	(21,482)	(293)	(2,294)	(3,977)	(1,432)	(29,478)
Other interest expense	(839)	(222)	(115)	(3,039)	1,191	(3,024)
Other non-material items	(456)	-	(25)	(4)	-	(485)
<b>Net profit before tax and royalty</b>	<b>288,197</b>	<b>(5,461)</b>	<b>40,829</b>	<b>19,338</b>	<b>(19,123)</b>	<b>323,780</b>
Royalty	28,371	-	(14,806)	(13,565)	-	-
<b>Net profit before tax and after royalty</b>	<b>316,568</b>	<b>(5,461)</b>	<b>26,023</b>	<b>5,773</b>	<b>(19,123)</b>	<b>323,780</b>
<b>Reconciliation of Statutory EBIT to Adjusted EBIT</b>						
Statutory EBIT	310,283	(5,309)	42,104	22,010	(44,488)	324,600
Interest income <sup>2</sup>	575	-	-	1,547	10,856	12,978
BOS interest expense	(21,482)	(293)	(2,294)	(3,977)	(1,432)	(29,478)
Net foreign exchange (gains) / losses on intercompany loans	-	-	39	-	1,408	1,447
ACCC fine	-	-	-	-	11,000	11,000
Impairment charges <sup>3</sup>	-	18,700	-	13,000	29,600	61,300
FCGP revenue alignment	-	-	-	-	(19,600)	(19,600)
Intercompany dividend	-	-	-	5,127	(5,127)	-
Other non-material items	(7)	(397)	-	(41)	-	(445)
<b>Adjusted EBIT / Segment Result</b>	<b>289,369</b>	<b>12,701</b>	<b>39,849</b>	<b>37,666</b>	<b>(17,783)</b>	<b>361,802</b>
Shop numbers <sup>1</sup>	1,421	295	262	700	-	2,678

<sup>1</sup> TTV and shop numbers are unaudited, non-IFRS measures.

<sup>2</sup> Land wholesale interest only

<sup>3</sup> Included in the impairment charge are brand names which are managed by the global teams, hence included in other segment.

<sup>4</sup> Top Deck is included in the Other Segment as it reports to Travel Services, a global team based in the Brisbane head office.

## A2 Revenue

	2015 \$'000	2014 \$'000
<b>Revenue from the sale of travel services</b>		
Commission and fees from the provision of travel	1,738,344	1,661,660
Revenue from the provision of travel	524,461	469,577
Revenue from tour operations	19,579	3,133
Other revenue from travel services	80,706	73,080
<b>Total revenue from the sale of travel services</b>	<b>2,363,090</b>	<b>2,207,450</b>

<b>Other revenue</b>		
Rents and sub-lease rentals	3,832	4,411
Interest	29,548	32,167
Royalties	519	541
<b>Total other revenue</b>	<b>33,899</b>	<b>37,119</b>

### Significant matter

In the prior year ended 30 June 2014, commission and fees from the provision of travel includes a one-off gain of \$15,300,000 related to the Flight Centre Global Product (FCGP) wholesale business. An additional one-off gain of \$4,300,000 (note A4) is included in realised net foreign exchange losses in the prior year. The gains have been brought about by system improvements, which have allowed FLT to accurately calculate and capture an additional component of margin within the FCGP business at the time of sale, rather than after the customer has travelled. The change brings FCGP in line with FLT policy (as detailed below).

### Accounting policy

The group recognises revenue when:

- The amount of revenue can be reliably measured
- It is probable that future economic benefits will flow to the entity; and
- Specific requirements have been met for each of the group's activities

Revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of travel services is recognised as set out below.

#### Revenue from the sale of travel services

Revenue from the sale of travel services is recorded when travel documents are issued, consistent with an agency relationship.

Revenue relating to volume incentives is recognised at the amount receivable when annual targets are likely to be achieved.

Revenue from tour operations is derived from the Top Deck Tours Limited and Back Roads Touring Co. Limited companies. It is recognised upon tour departure, net of associated cost of sales.

Additional information on other revenue accounting policies is included in note I(e).

#### Critical accounting estimates, assumptions and judgments - override revenue

In addition to commission payments, FLT is eligible for override payments from its suppliers as included in revenue from the provision of travel. These overrides are negotiated with individual suppliers and will typically include a combination of guaranteed payments and volume incentives.

The volume incentives are recognised at the amount receivable when annual targets are likely to be achieved.

The override revenue accrual process is inherently judgmental and is impacted by factors which are not completely under FLT's control. These factors include:

- Year-end differences – as supplier contract periods do not always correspond to FLT's financial year, judgments and estimation techniques are required to determine revenues from customers anticipated to travel over the remaining contract year and the associated override rates applicable to these forecast levels
- Timing – where contracts have not been finalised before the start of the contract period, override and commission earnings may have to be estimated until agreement has been reached.

Information on override receivables is included in note F3.

## NOTES TO THE FINANCIAL STATEMENTS continued

### A3 Other income

	2015 \$'000	2014 \$'000
<b>Other income</b>		
Net foreign exchange gains - realised	5,067	-
Gain on financial assets at fair value <sup>1</sup>	1,211	5,127
<b>Total other income</b>	<b>6,278</b>	<b>5,127</b>

<sup>1</sup> In the prior year ended 30 June 2014, the gain on financial assets at fair value includes a one-off gain of \$5,127,000 relating to the maturity of the group's remaining Collateralised Debt Obligation (CDO), which had been fully written down in 2011.

### A4 Expenses

Profit before income tax includes the following expenses:

		2015 \$'000	2014 \$'000
<b>Finance costs</b>			
BOS interest expense	D2	24,257	29,478
Interest and finance charges paid/payable		2,245	3,024
Unwind of make good provision discount	F8	(387)	485
<b>Total finance costs</b>		<b>26,115</b>	<b>32,987</b>
<b>Other expenses</b>			
Other occupancy costs		56,222	55,843
Consulting fees		49,322	39,838
Communication and IT		68,981	60,000
Net foreign exchange losses - realised		-	4,463
Net foreign exchange losses - unrealised		1,232	10,521
Other expenses <sup>1</sup>		174,096	158,863
<b>Total other expenses</b>		<b>349,853</b>	<b>329,528</b>

<sup>1</sup> In the prior year ended 30 June 2014, other expenses include the ACCC penalties of \$11,000,000.

### A5 Business combinations

#### Top Deck Tours Limited

##### Summary of acquisition

On 27 August 2014, FLT acquired a 90% holding of Top Deck Tours Limited (TDT), an unlisted company based in the United Kingdom and specialising in tour operations. The acquisition allows FLT to expand its move from travel agent to world class travel retailer and allows for greater control of its product offering.

Details of the purchase consideration, the net assets acquired, and goodwill are as follows:

	As at acquisition date \$'000
Cash paid	34,571
Consideration for working capital	4,262
Contingent consideration - Earn out	6,649
Contingent consideration - Symmetrical put and call	6,501
<b>Total purchase consideration</b>	<b>51,983</b>

## A5 Business combinations (continued)

The business combination accounting has been finalised and FLT has recognised the fair values of TDT's identifiable assets and liabilities at acquisition date as follows:

	Fair value as at acquisition date \$'000
Cash	35,628
Trade receivables	521
Other current assets	1,189
Plant and equipment	981
Intangible assets: brand names	11,145
Trade and other payables	(23,237)
Provision for employee benefits	(1,146)
Deferred income	(8,791)
Lease liabilities	(91)
Other current liabilities	(1,256)
Net identifiable assets acquired	14,943
Add: Goodwill	37,040
<b>Net assets acquired</b>	<b>51,983</b>

The goodwill is attributable to the profitability of TDT as well as assisting FLT in the transition from travel agent to world class travel retailer.

### Contingent consideration - Earn out

Contingent consideration of £3,744,000 (\$7,675,000) was accrued within current contingent consideration to be paid to the shareholders. The potential undiscounted amount payable under the agreement was between £nil and £3,744,000 (\$7,675,000) and was based on a multiple of final full-year October 2014 audited consolidated EBITDA results of TDT. Based on the audited TDT results for the fiscal year ended 31 October 2014, the maximum amount of contingent consideration was earned. The financial liability related to the fair value of the contingent consideration was recorded in current financial liabilities at the date of acquisition, and subsequent changes in fair value were recorded through profit or loss.

Upon confirmation of final TDT earnings, subsequent to 30 June 2015, the maximum earn-out amount and the working capital liability, was paid to the shareholders at an AUD equivalent of \$11,587,000. The difference between the amount paid and what was recorded as purchase consideration reflects a movement in foreign exchange rates.

### Contingent consideration - Symmetrical put and call options

Concurrent with the acquisition, FLT entered into a call option over the non-controlling shareholder's 10% interest in TDT, and the non-controlling shareholder entered into a corresponding put option. These options are exercisable after two years from the acquisition date. The settlement amount is based on a multiple of TDT's full-year audited TDT results for the year in which the option is exercised.

While the group holds less than 100% of the equity interests of TDT, no non-controlling interest has been recorded due to the immaterial nature of the non-controlling interest. The financial liability related to the put option has been recorded as part of non-current contingent consideration. The fair value of this liability has been estimated by discounting the present value of future expected cash flows for the settlement of the put and call options at a discount rate of 2.2%. The expected cashflows are based on the probability-adjusted TDT EBITDA of between £6,000,000 and £8,000,000 at the expected date of exercise. Any changes in the fair value of this liability are recorded through the statement of profit or loss and other comprehensive income.

### Revenue and profit contribution

TDT reported gross profit of \$15,766,000 and net profit before tax of \$2,683,000 for the period 27 August 2014 to 30 June 2015. Refer to note A2 for accounting policy note in relation to revenue from tour operations.

If the acquisition had occurred on 1 July 2014, gross profit and profit before tax for the year ended 30 June 2015 would have been \$25,357,000 and \$9,469,000 respectively. These amounts have been calculated using the subsidiary's results.

## NOTES TO THE FINANCIAL STATEMENTS continued

### A5 Business combinations (continued)

#### Purchase consideration - cash inflow

	30 June 2015 \$'000
Cash consideration	(34,571)
<i>Add: balances acquired</i>	
Cash	35,628
<b>Inflow of cash - investing activities</b>	<b>1,057</b>

#### Acquisition-related costs

Acquisition-related costs of \$794,000 are included in other expenses in the statement of profit or loss and other comprehensive income and in operating cash flows in the statement of cash flows.

### Prior year acquisition - Flight Centre Travel Group (Ireland) Limited

#### Summary of acquisition

On 2 May 2014, FLT purchased 100% of Flight Centre Travel Group (Ireland) Limited (formerly Travelplan Corporate Limited), a Dublin-based travel management business, for \$2,070,000. This acquisition was effective 1 April 2014, with all transactions subsequent to 1 April 2014 belonging to FLT. Prior to the acquisition, Flight Centre Travel Group (Ireland) Limited was part of the global FCM Travel Solutions travel management network that FLT created in 2004. The acquired business will continue to operate as FCM Ireland and will complement FLT's corporate travel businesses in the United Kingdom. FCM Ireland results are included in the UK segment.

The business combination accounting has been finalised and there have been no changes to the provisional business combination accounting as disclosed in the 30 June 2014 annual financial statements.

### A6 Contingent consideration

	2015 \$'000	2014 \$'000
<b>Current</b>		
Contingent consideration	12,304	-
<b>Total current contingent consideration</b>	<b>12,304</b>	<b>-</b>
<b>Non-current</b>		
Contingent consideration	6,420	-
<b>Total non-current contingent consideration</b>	<b>6,420</b>	<b>-</b>

#### Fair value

Contingent consideration as set out above and in note A5 is classified as Level 3 (2014: nil).

The main valuation inputs in determining the fair value of the put option are the estimates of Top Deck EBITDA compound annual growth rate (CAGR) and probabilities in the year in which the options will be exercised. Since both of these estimates are unobservable inputs, the fair value of the put option is classified as a Level 3 fair value.

Reconciliation of Level 3 contingent consideration for the period is set out below:

	Contingent consideration \$'000
<b>Opening balance 1 July 2014</b>	<b>-</b>
New business combinations	17,412
Losses / (gains) recognised in the statement of profit or loss and other comprehensive income	1,312
<b>Closing balance 30 June 2015</b>	<b>18,724</b>

## B Cash management

FLT has a focus on maintaining a strong balance sheet through increasing cash and investments and reducing debt. The strategy also considers the group's expenditure, growth and acquisition requirements, and the desire to return dividends to shareholders.

- B1 Cash and cash equivalents
- B2 Available-for-sale (AFS) financial assets
- B3 Cash & AFS - financial risk management
- B4 Borrowings
- B5 Ratios
  - Net debt
  - Gearing ratio
- B6 Dividends
- B7 Capital expenditure

### B1 Cash and cash equivalents

#### Accounting policy

Client cash represents amounts from customers held before release to service and product suppliers.

Additional information on cash accounting policies is included in note 1(i).

	2015 \$'000	2014 \$'000
General cash at bank and on hand	564,730	476,042
Client cash	813,255	785,640
<b>Total cash and cash equivalents</b>	<b>1,377,985</b>	<b>1,261,682</b>

For the purpose of the consolidated statement of cash flows, cash and cash equivalents is equal to the balance as disclosed above.

#### Reconciliation of profit after tax to net cash inflow from operating activities:

Profit for the year	256,553	206,918
Depreciation and amortisation	54,103	53,777
Net (gain) / loss on disposal of non-current assets	1,174	4,662
Impairment charges against assets	-	61,300
Net (gain) / loss on financial assets at fair value	(1,211)	(5,127)
Share of (profits) / losses of joint ventures not received as dividends or distributions	(235)	(1,346)
Fair value adjustment to derivatives	(1,472)	-
Net exchange differences	(14,992)	12,772
(Increase) / decrease in trade and other receivables	(72,708)	(73,559)
(Increase) / decrease in deferred tax assets	5,119	8,040
(Increase) / decrease in inventories	(739)	(86)
Increase / (decrease) in trade creditors, other payables and financial liabilities at fair value through profit or loss	144,047	(5,371)
Increase / (decrease) in net income taxes payable	(11,891)	(35,612)
Increase / (decrease) in deferred tax liabilities	(296)	(3,547)
Increase / (decrease) in other provisions	5,077	4,272
<b>Net cash inflow / (outflow) from operating activities</b>	<b>362,529</b>	<b>227,093</b>

## NOTES TO THE FINANCIAL STATEMENTS continued

### B2 Available-for-sale (AFS) financial assets

	2015 \$'000	2014 \$'000
Unlisted debt securities	75,661	41,240

These are bearing interest between 0% and 3.66% (2014: 0% and 4.71%).

The weighted average interest rate for the year was 2.92% (2014: 2.80%).

### B3 Cash and AFS - financial risk management

#### Credit risk

Credit risk arising from cash and cash equivalents and AFS financial assets is managed in accordance with group treasury policy. Limits are set on credit rating, type of security, counterparty exposure and maturity.

Financial assets' credit quality can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	Equivalent S&P rating			Non investment grade / unrated \$'000	Total \$'000
	AA and Above \$'000	AA- to A- \$'000	BBB+ to BBB \$'000		
<b>At 30 June 2015</b>					
Cash and cash equivalents	2	1,222,978	121,399	33,606	1,377,985
Available-for-sale financial assets	-	66,955	8,624	82	75,661

#### At 30 June 2014

Cash and cash equivalents	130	1,165,700	59,768	36,084	1,261,682
Available-for-sale financial assets	9,626	23,212	7,956	446	41,240

The maximum exposure to credit risk at the reporting period's end is the fair value of all AFS financial assets and the carrying amount of cash and cash equivalents as disclosed above.

No impairment charge was recorded to the statement of profit or loss and other comprehensive income during the year (2014: nil).

#### Fair value

Cash is stated at the carrying amount, which approximates fair value.

AFS financial assets are measured at fair value, which is determined by reference to price quotations in a market for identical assets. As the assets are not heavily traded, we have determined that they are classified as Level 2 (2014: Level 2) under the AASB 13 Fair value measurement hierarchy, based on the valuation technique as described above.

#### Market risk

##### Interest rate risk

Refer to note C1 for sensitivity of interest rate risk.



## B4 Borrowings

	Notes	2015 \$'000	2014 \$'000
<b>Current</b>			
Bank loans		16,269	23,722
Net unsecured notes principal	D2	16,537	19,201
<b>Total current borrowings</b>		<b>32,806</b>	<b>42,923</b>
<b>Non-current</b>			
Bank loans		-	1,955
<b>Total non-current borrowings</b>		<b>-</b>	<b>1,955</b>

### Significant matters

On 7 November 2014, FLT injected equity into FLT's India business to retire \$19,000,000 in external borrowings related to the India corporate travel business and to lower overall interest expense.

The South Africa building loan was repaid in full during the reporting period.

Refer to note D2 for further information on the net unsecured notes that form part of the Business Ownership Scheme (BOS).

### Financial Risk Management

#### Cash flow and fair value interest rate risk

The group holds borrowings which are issued at variable rates. FLT's results and operating cashflows are, therefore, exposed to changes in market interest rates.

The group constantly analyses its interest rate exposure, taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. The group calculates the impact a defined interest rate shift will have on profit or loss. For each analysis, the same interest rate shift is used for all currencies.

Under group policy, the maximum percentage of outstanding external group debt that may be maintained at a fixed interest rate is 50%, unless the global CFO and global treasurer approve otherwise.

Current bank loan facilities are subject to annual review and are at floating interest rates.

Non-current loans have been paid out during the year. The average maturity of non-current loans in 2014 was 4.1 years at floating interest rates.

The current interest rates on bank loan facilities range from 1.65% - 10.10% (2014: 1.67% - 11.31%).

#### Liquidity risk

To manage liquidity risk, the group has access to additional financing via unused bank loan facilities, purchase card facilities, bank guarantees and letter of credit facilities.

	Bank loans		Purchase cards		Letters of credit	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Unused	9,641	10,646	33,308	26,123	49,568	39,244
Used	16,269	25,677	31,638	25,964	71,686	54,952
<b>Total facilities</b>	<b>25,910</b>	<b>36,323</b>	<b>64,946</b>	<b>52,087</b>	<b>121,254</b>	<b>94,196</b>

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 Association (IATA) regulations.

No assets are pledged as security for bank guarantee or letter of credit facilities.

Refer to note C1 for a sensitivity analysis of borrowings interest rate risk and details of borrowings' maturity profiles and associated liquidity risks.

## NOTES TO THE FINANCIAL STATEMENTS continued

### B4 Borrowings (continued)

#### Fair value

The carrying amount of the group's current and non-current borrowings approximates their fair values, as commercial rates of interest are paid and the impact of discounting is not significant.

#### Assets pledged as security

	2015 \$'000	2014 \$'000
Current	-	421
Non-current	-	1,955
<b>Total secured bank loans</b>	<b>-</b>	<b>2,376</b>
Carrying value of buildings pledged as security	-	5,234

No group assets have been pledged as security.

### B5 Ratios

#### Capital management

FLT maintains a conservative funding structure that allows it to meet its operational and regulatory requirements, while providing sufficient flexibility to fund growth, working capital requirements and future strategic opportunities. The group's capital structure includes a mix of debt, general cash and equity attributable to the parent's equity holders.

In recent years, the company has initiated strategies to strengthen its balance sheet by increasing general cash and maintaining moderate debt levels, with a view to creating greater shareholder value in the future.

#### Net debt

	Notes	2015 \$'000	2014 \$'000
<b>Net debt</b>			
General cash at bank and on hand	B1	564,730	476,042
<i>Less:</i>			
Borrowings - current		32,806	42,923
Borrowings - non-current		-	1,955
	B4	32,806	44,878
<b>Positive net debt<sup>1</sup></b>		<b>531,924</b>	<b>431,164</b>

FLT is currently in a positive net debt position.

<sup>1</sup> Net debt = General cash - (Current + Non-current Borrowings). The calculation excludes client cash and related AFS financial assets.

#### Gearing ratio

	Notes	2015 \$'000	2014 \$'000
Total borrowings	B4	32,806	44,878
Total equity	D4/F9	1,270,121	1,097,798
<b>Gearing ratio<sup>2</sup></b>		<b>2.6%</b>	<b>4.1%</b>

<sup>2</sup> Gearing ratio = Total borrowings / Total equity

## B6 Dividends

### Overview

When determining dividend returns to shareholders, FLT's board considers a number of factors, including the company's anticipated cash requirements to fund its growth and operational plans and current and future economic conditions.

While payments may vary from time to time, according to these anticipated needs, FLT aims to return to shareholders approximately 50 - 60% of net profit after income tax (NPAT).

The proposed final dividend has been declared taking into account traditional seasonal cashflows, anticipated cash outflows and the one-off profit items.

The combined interim and final dividend payments represent a \$153,236,000 (2014: \$152,866,000) return to shareholders, 60% (2014: 74%) of FLT's statutory NPAT. It represents 60% (2014: 58%) of FLT's underlying NPAT<sup>1</sup>.

Ordinary shares	2015 \$'000	2014 \$'000
Final ordinary dividend for the year ended 30 June 2014 of 97.0 cents (2013: 91.0 cents) per fully paid share, paid on 17 October 2014	97,670	91,476
Interim ordinary dividend for the year ended 30 June 2015 of 55.0 cents (2014: 55.0 cents) per fully paid share, paid on 16 April 2015	55,438	55,308
	153,108	146,784
<b>Dividends not recognised at the end of the year</b>		
Since year-end, the directors have recommended a 97.0 cents per fully paid share (2014: 97.0 cents) final dividend. The aggregate amount of the dividend to be paid on 16 October 2015 out of retained profits at 30 June 2015, but not recognised as a liability at year-end is:	97,798	97,558

### Franking credits

Franking credits available for subsequent financial years based on a tax rate of 30%	286,850	269,022
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<sup>1</sup> June 2015 underlying NPAT excludes \$2,563,000 Top Deck PBT, (\$813,000) Top Deck tax items, and associated foreign exchange. June 2014 underlying NPAT excludes non-cash adjustments of \$61,300,000 impairment, the positive \$19,600,000 FCGP revenue alignment and the \$11,000,000 ACCC fine.

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

- Franking credits that will arise from the current tax liability's payment
- Franking debits that will arise from the dividend payments recognised as a liability for the reporting period's end; and
- Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting period's end

The dividend recommended by the directors since year-end, but not recognised as a year-end liability will reduce the franking account by \$41,913,000 (2014: \$41,811,000).

## NOTES TO THE FINANCIAL STATEMENTS continued

### B7 Capital expenditure

#### Overview

As it grows its network, FLT aims to maintain capital expenditure on property, plant and equipment and intangibles at approximately the same level as annual depreciation and amortisation expense. This excludes any major strategic property, plant and equipment expenditure.

		2015 \$'000	2014 \$'000
<b>Depreciation</b>			
Buildings	F4	1,227	1,266
Plant and equipment	F4	45,476	42,924
<b>Total depreciation</b>		<b>46,703</b>	<b>44,190</b>
<b>Amortisation</b>			
Brand names and customer relationships	F5	-	3,377
Internally generated and other intangibles	F5	7,400	6,210
<b>Total amortisation</b>		<b>7,400</b>	<b>9,587</b>
<b>Total depreciation and amortisation</b>		<b>54,103</b>	<b>53,777</b>
<b>Additions</b>			
Plant and equipment	F4	78,081	48,742
Intangibles	F5	11,513	9,214
<b>Total additions</b>		<b>89,594</b>	<b>57,956</b>

There has been ongoing investment in the sales network with shop\* growth of 147 to 2,825 (2014: 197 and 2678 respectively) and a number of IT projects to support the FLT strategy.

\* Shop numbers are unaudited, non-IFRS measures.

#### Contractual commitments

Neither the parent entity, nor the group, have any contractual obligations to purchase plant and equipment or intangible assets at balance date (2014: nil).

## C Financial risk management

This section provides information relating to FLT group's exposure to financial risks, how they affect the group's financial position and performance, and how the risks are managed.

- C1 Financial risk management
- C2 Derivative financial instruments
- C3 Other financial assets

### C1 Financial risk management

#### Overview

The group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The group's overall risk management program focuses on financial markets' unpredictability and seeks to minimise potential adverse effects on the group's financial performance.

A central treasury department oversees financial risk under board-approved policies that cover specific areas, such as foreign exchange risk, interest rate risk and credit risk, use of derivative financial instruments and non-derivative financial instruments and investment of excess liquidity. Treasury identifies, evaluates and hedges financial risks in co-operation with the group's operating units. The board provides written principles for overall risk management, as well as policies covering the specific areas noted above.

Market risk and credit risk are analysed within the relevant balance sheet note disclosures. Liquidity risk and sensitivities are set out below.

#### Liquidity risk

Prudent liquidity risk management requires FLT to maintain sufficient cash and marketable securities, access to additional funding through an adequate amount of committed credit facilities and the ability to close out market positions. The group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. At year-end, FLT held deposits at call of \$696,091,000 (2014: \$498,345,000) that are readily available for managing liquidity risk.

Management monitors rolling forecasts of the group's liquidity reserve and cash and cash equivalents (refer to note B1) on the basis of expected cash flows. This is generally carried out at local level in the group's operating companies, in accordance with established practices and limits. These limits vary by location to take into account local market liquidity. In addition, the group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

The group's access to undrawn borrowing facilities at the reporting period's end are disclosed in note B4.

## NOTES TO THE FINANCIAL STATEMENTS continued

### C1 Financial risk management (continued)

#### Maturities of financial liabilities

The tables below analyse the group's financial liabilities and net and gross settled derivative financial instruments into relevant maturity groupings. Groupings are based on the remaining period to the contractual maturity date at the reporting period's end. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 12 months \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	More than 5 years \$'000	Total contractual cash flows \$'000	Carrying amount (assets)/ liabilities \$'000
<b>2015</b>						
<b>Non-derivatives</b>						
Non-interest bearing trade and other payables	947,649	-	-	-	947,649	947,649
Contingent consideration	12,304	6,640	-	-	18,944	18,724
Financial liabilities at FVTPL	384,039	-	-	-	384,039	384,039
Borrowings	32,806	-	-	-	32,806	32,806
<b>Total non-derivatives</b>	<b>1,376,798</b>	<b>6,640</b>	<b>-</b>	<b>-</b>	<b>1,383,438</b>	<b>1,383,218</b>
<b>Derivatives</b>						
Derivatives - net settled	-	-	-	-	-	-
<b>2014</b>						
<b>Non-derivatives</b>						
Non-interest bearing trade and other payables	923,627	-	-	-	923,627	923,627
Contingent consideration	-	-	-	-	-	-
Financial liabilities at FVTPL	211,306	-	-	-	211,306	211,306
Borrowings	43,170	669	1,448	-	45,287	44,878
<b>Total non-derivatives</b>	<b>1,178,103</b>	<b>669</b>	<b>1,448</b>	<b>-</b>	<b>1,180,220</b>	<b>1,179,811</b>
<b>Derivatives</b>						
Derivatives - net settled	9,432	-	-	-	9,432	9,432

## C1 Financial risk management (continued)

### Summarised sensitivity analysis

The following table summarises the sensitivity of the group's financial assets and financial liabilities to interest rate risk and foreign exchange risk. Interest rate sensitivities are based on reasonable changes in interest rates on that portion of cash, investments and borrowings affected. Foreign exchange sensitivities are based on reasonably possible changes in foreign exchange rates. For interest rate and foreign exchange rate sensitivities, all other variables are held constant. Sensitivity figures are pre-tax. The movement in equity excludes movements in retained earnings.

	Carrying amount \$'000	Interest rate risk		Foreign exchange risk	
		-1% Profit	+1% Profit	-10% Profit	+10% Profit
<b>2015</b>					
<b>Financial assets</b>					
Cash and cash equivalents	1,377,985	(13,780)	13,780	12,402	(10,521)
Available-for-sale financial assets	75,661	(657)	657	-	-
Trade and other receivables	657,945	-	-	3,873	(3,169)
Derivative financial instruments	4,330	-	-	32,794	(26,571)
Other financial assets	2,677	(11)	11	-	-
<b>Financial liabilities</b>					
Trade and other payables	947,649	-	-	(1,283)	1,050
Contingent consideration	18,724	-	-	(1,501)	1,274
Financial liabilities at FVTPL	384,039	-	-	(42,671)	34,913
Borrowings	32,806	163	(163)	-	-
<b>Total increase / (decrease)</b>		(14,285)	14,285	3,614	(3,024)

	Carrying amount \$'000	Interest rate risk		Foreign exchange risk	
		-1% Profit	+1% Profit	-10% Profit	+10% Profit
<b>2014</b>					
<b>Financial assets</b>					
Cash and cash equivalents	1,261,682	(12,617)	12,617	2,093	(1,694)
Available-for-sale financial assets	41,240	(312)	312	-	-
Trade and other receivables	560,250	-	-	2,365	(1,935)
Derivative financial instruments	-	-	-	-	-
Other financial assets	12,017	(107)	107	-	-
<b>Financial liabilities</b>					
Trade and other payables	923,627	-	-	(620)	507
Contingent consideration	-	-	-	-	-
Financial liabilities at FVTPL	211,306	-	-	(23,519)	19,243
Borrowings	44,878	257	(257)	-	-
Derivative financial instruments	9,432	-	-	29,637	(24,220)
<b>Total increase / (decrease)</b>		(12,779)	12,779	9,956	(8,099)

There is no equity impact as a result of movements in interest rates and foreign exchange rates.

There is no profit or equity impact as a result of other price risk.

## NOTES TO THE FINANCIAL STATEMENTS continued

### C2 Derivative financial instruments

	2015 \$'000	2014 \$'000
<b>Current assets</b>		
Forward foreign exchange contracts - held-for-trading	4,330	-
<b>Total current derivative financial instrument assets</b>	4,330	-
<b>Current liabilities</b>		
Forward foreign exchange contracts - held-for-trading	-	9,432
<b>Total current derivative financial instrument liabilities</b>	-	9,432

### Financial risk management

#### Fair value

Forward foreign exchange contracts are measured at fair value, which is based on observable forward foreign exchange rates, and the respective currencies' yield curves, as well as the currency basis spreads between the respective currencies.

The forward foreign exchange contracts are classified as Level 2 (2014: Level 2) under the AASB 13 Fair value measurement hierarchy, based on the valuation technique described above.

#### Credit risk

The maximum exposure to credit risk at the reporting period's end is the fair value of all forward foreign exchange contracts as disclosed above. Credit quality can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. All forward foreign exchange contracts have an equivalent S&P rating of AA- to A-.

No impairment charge was recognised in the statement of profit or loss and other comprehensive income during the year (2014: nil).

#### Accounting policy

*In accordance with its financial risk management policies, FLT uses derivative financial instruments (such as foreign exchange contracts) in the normal course of business to hedge its exposure to interest and foreign exchange rate fluctuations. Such derivative financial instruments are stated at fair value and calculated using the valuation technique as described above. The recognition of 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 has entered into forward foreign exchange contracts that are economic hedges, but are not designated as effective hedging instruments and, therefore, do not satisfy hedge accounting requirements. Gains or losses on these contracts are recognised in profit or loss and other comprehensive income. The derivatives are used exclusively for hedging purposes, not as speculative instruments.*



### C3 Other financial assets

	2015 \$'000	2014 \$'000
<b>Current</b>		
Loans to related parties	-	2,825
<b>Total current other financial assets</b>	-	2,825
<b>Non-current</b>		
Loans to related parties	1,050	7,868
Security deposits	1,627	1,324
<b>Total non-current other financial assets</b>	2,677	9,192

#### Significant matter

During the year, FLT converted related party loans of \$7,500,000 with Pedal Group Pty Ltd to equity under a debt to equity conversion arrangement. A total of \$15,000,000 additional equity was issued by Pedal Group Pty Ltd with our joint venture partners also converting \$7,500,000. FLT's relative ownership interest remained the same.

Refer to note E2 for terms of the loans to related parties.

#### Financial risk management

##### Fair value

Due to their short-term nature, the carrying amounts of current other financial assets are assumed to approximate their fair value.

The carrying amounts of non-current other financial assets equals their fair values, due to the commercial rates of interest earned and paid respectively, and the impact of discounting is not significant.

##### Credit risk

All other financial assets are categorised as no default customers, as they have had no late payments or other breaches of trading terms that would require a provision to be raised.

## D Reward and recognition

This section provides a breakdown of the various programs FLT uses to reward and recognise employees and key executives, including Key Management Personnel (KMP).

FLT believes that these programs reinforce the value of ownership and incentives, both of which are key parts of the company's philosophies and culture, and drive performance both individually and collectively to deliver better returns to shareholders.

These programs also result in changes to the group's contributed equity.

- D1 Key management personnel
- D2 Business Ownership Scheme (BOS)
- D3 Share-based payments
  - Senior Executive Option Plan (SEOP)
  - Senior Executive Performance Rights Plan (SEPRP)
  - Employee Share Plan (ESP)
- D4 Contributed equity

## D1 Key management personnel

### KMP compensation

	2015 \$	2014 \$
Short-term employee benefits	5,509,140	5,552,451
Post-employment benefits	131,887	126,658
Share-based payments	2,117	16,709
Long-term benefits	127,084	1,345,747
<b>Total KMP compensation</b>	<b>5,770,228</b>	<b>7,041,565</b>

Detailed remuneration disclosures are provided in section 2 of the remuneration report. Supporting information on director and KMP remuneration is included in the remuneration report in sections 3 and 4.

### Equity instrument disclosures relating to KMP

Details of options and performance rights provided as remuneration to KMP and shares issued on the exercise of such, together with terms and conditions, can be found in section 4 of the remuneration report.

### Other transactions with KMP

Directors and specified executives and their related companies receive travel services from FLT and its related companies on normal terms and conditions to employees and customers.

## D2 Business ownership scheme (BOS)

### Overview

FLT believes it is important that its leaders see the businesses they run as their own and, under the BOS, invites eligible employees (front-line team leaders) to invest in unsecured notes in their businesses as an incentive to improve short and long-term performance.

### Accounting policy

#### Business Ownership Scheme

The Australian BOS program is an ASIC-registered unsecured note scheme.

The employee receives a variable interest return on investment, based on his or her individual business's performance and is, therefore, exposed to the risks of his or her business, as neither FLT nor any of its group companies guarantees returns.

The unsecured notes are repayable on 30 days notice by either party or upon termination of the note holder's employment. Interest is generally payable, one month in arrears.

FLT has arrangements through its subsidiary, P4 Finance Pty Ltd (P4), to provide loans on an arm's length, commercial basis to fund eligible business leaders' acquisition of unsecured notes. Under the terms of these loans, unsecured note holders agree that FLT will hold the Unsecured Note Certificate in escrow and note holders must assign the payment of funds owing on an unsecured note to P4.

Accordingly, the group has at a consolidated level, offset FLT's unsecured note liability and P4's loan receivable in the group balance sheet and has also netted the interest income earned on loans provided by P4 against interest paid by FLT on the unsecured notes.

	2015 \$'000	2014 \$'000
Unsecured notes principal	90,510	93,627
Loans held for unsecured notes	(73,973)	(74,426)
<b>Net unsecured notes principal</b>	<b>16,537</b>	<b>19,201</b>

The unsecured note holders earn a variable, non-guaranteed return, based on their business's performance.

Unless approved by the board, via its remuneration and nomination committee, the distribution payable in respect of any unsecured note from time to time will not exceed 35% of the face value of the unsecured note in any twelve month period.

Refer to note A1 for breakdown of BOS interest expense by segment.

Further information on BOS interest expense for KMP is included in section 2 and BOS return multiples in section 3 of the remuneration report.

### Accounting policy

#### BOS multiple

A liability for the employee benefit of the potential BOS return multiple has been recognised as a provision (refer to note F8) when there is a contractual obligation or valid expectation that payment will be made.

Employee benefits - Other long-term benefits	5,672	4,791
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## Financial risk management

### Credit risk

There is no credit risk arising for BOS loans held for unsecured notes, as there is a legally enforceable right to set off against FLT's unsecured note liability.

## NOTES TO THE FINANCIAL STATEMENTS continued

### D3 Share-based payments

#### Overview

FLT has a number of plans which issue shares to employees and key executives, including:

- Senior Executive Option Plan (SEOP)
- Senior Executive Performance Rights Plan (SEPRP); and
- Employee Share Plan (ESP)

#### Expenses arising from share-based payment transactions

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

	2015 \$'000	2014 \$'000
Options issued under the SEOP	-	17
Performance rights issued under the SEPRP	-	6
Matched shares allocated under ESP	663	836
<b>Total expenses arising from share-based payment transactions</b>	<b>663</b>	<b>859</b>

Directors are not eligible to participate in the ESP and have elected not to participate in the SEOP and SEPRP.

#### Accounting policy

*The fair value of options granted under FLT's SEOP or rights granted under FLT's SEPRP is recognised as an employee benefit expense with a corresponding increase in reserves. The fair value is measured at grant date and recognised over the period during which employees become unconditionally entitled to the options/rights.*

*The fair value at grant date is determined using a Black-Scholes pricing model. The model takes into account the exercise price, the options'/rights' term, market conditions, the impact of dilution, the options'/rights' non-tradable nature, the share price at grant date and the underlying share's expected price volatility, the expected dividend yield and the risk-free interest rate for the options'/rights' term.*

*The fair value of the options/rights 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/rights that are expected to become exercisable. At the reporting period's end, the entity revises its estimate of the number of options/rights that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.*

### D3 Share-based payments (continued)

#### Senior Executive Option Plan (SEOP) and Senior Executive Performance Rights Plan (SEPRP)

The options and performance rights held during the year by all executives, including those KMP separately disclosed in the remuneration report, is set out below:

Grant Date	Expiry Date	Exercise Price	Balance at start of the year Number	Forfeited/ expired during the year Number	Exercised during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number	Weighted average share price at exercise date	Weighted average remaining contractual life
<b>2015</b>									
<b>Senior Executive Option Plan</b>									
29/06/09	30/06/15	\$10.00	285,000	(120,000)	(165,000)	-	-	\$43.77	0 years
Weighted average exercise price			\$10.00	-	\$10.00	\$10.00	\$10.00		
<b>Senior Executive Performance Rights Plan</b>									
12/08/11	30/06/15	\$0.00	5,500	(4,000)	(1,500)	-	-	\$47.02	0 years
Weighted average exercise price			\$0.00	-	\$0.00	\$0.00	-		

#### 2014

##### Senior Executive Option Plan

29/06/09	30/06/15	\$10.00	365,000	-	(80,000)	285,000	125,000	\$47.78	1 year
Weighted average exercise price			\$10.00	-	\$10.00	\$10.00	\$10.00		

##### Senior Executive Performance Rights Plan

12/08/11	30/06/15	\$0.00	11,000	-	(5,500)	5,500	-	\$48.41	1 year
Weighted average exercise price			\$0.00	\$0.00	\$0.00	\$0.00	-		

There have been no options or performance rights granted during the year and there were no modifications to the SEOP or SEPRP during the year. Therefore, there have been no changes to the fair value calculation for options or performance rights.

The SEOP and SEPRP plans expired on 30 June 2015. All remaining options and rights under the plans expired on this date.

#### Employee Share Plan (ESP)

##### General terms

Under the plan, which was approved by the board in September 2010, eligible employees are granted a conditional right to one matched share for every four shares purchased (for cash consideration), subject to vesting conditions.

Employees are eligible to participate if they have been employed full time or permanent part-time for at least three months.

##### Vesting requirements

A participant must hold the acquired shares for a period of two years and one month and still be employed with FLT at the end of that time. If acquired shares are sold before the end of the vesting period, conditional rights to the matched shares are forfeited.

##### Method of settlement

A participant who satisfies the vesting conditions will become entitled to the matched shares on the last day of the vesting period.

The matched shares may be newly issued by FLT or shares purchased on-market.

## NOTES TO THE FINANCIAL STATEMENTS continued

### D3 Share-based payments (continued)

#### Valuation

The market value of shares issued under the plan, measured as the weighted average price at which FLT's shares are traded on the ASX during the five days following the date on which the contributions are paid, is recognised in the balance sheet as an issue of shares in the period the shares are granted.

The market value of matched shares allocated (but not issued) under the plan, measured as the weighted average price of shares traded on the ASX in the five trading days prior to those shares being allocated, is recognised in the balance sheet as part of reserves over the period that the matched share vests.

A corresponding expense is recognised in employee benefit costs.

	2015	2014
Number of shares issued under the plan to participating employees	84,241	59,416
Weighted average market price of shares issued*	\$36.77	\$39.95

\* Includes dilutive effect of matching shares at nil value

### D4 Contributed equity

#### Overview

The movements in contributed equity during the year related to shares issued under the ESP, SEOP and SEPRP. This reinforces the importance that FLT places on ownership to drive business improvement and overall results.

#### Reconciliation of ordinary share capital:

The following reconciliation summarises the movements in issued capital during the year.

Issues of a similar nature have been grouped and the issue price shown is the weighted average. Detailed information on each issue of shares is publicly available via the ASX.

Details	Number of authorised shares	Weighted average issue price	\$'000
<b>Opening Balance - 1 July 2013</b>	100,426,726		387,757
Employee Share Plan	49,515	\$47.93	2,372
Employee Share Plan Matched Shares	9,901	\$0.00	-
Senior Executive Option Plan	80,000	\$10.00	800
Senior Executive Performance Rights Plan	5,500	\$0.00	-
<b>Closing Balance - 30 June 2014</b>	100,571,642		390,929
Employee Share Plan	77,230	\$40.11	3,098
Employee Share Plan Matched Shares	7,011	\$0.00	-
Senior Executive Option Plan	165,000	\$10.00	1,650
Senior Executive Performance Rights Plan	1,500	\$0.00	-
<b>Closing Balance - 30 June 2015</b>	100,822,383		395,677

## E Related parties

This section provides information relating to the FLT group related parties and the extent of related party transactions within the group and the impact they had on the group's financial performance and position.

- E1 Investments accounted for using the equity method
- E2 Related party transactions

### E1 Investments accounted for using the equity method

#### Overview

On 10 September 2014, FLT completed an agreement with Thien Minh Group (TMG) to work together in joint ventures (JV) to expand TMG's Buffalo Tours destination management business throughout Asia. This resulted in FLT contributing USD\$1,470,000 (\$1,584,000) for a 49% investment in Buffalo Tours (Singapore) Pte Ltd a company incorporated in Singapore, and a 49% investment in Buffalo Tours (Hongkong) Limited a company incorporated in Hong Kong. FLT and TMG will have three representatives each on the JVs operating boards. The joint ventures are structured through separate vehicles and FLT has a residual interest in the vehicles' net assets. Accordingly, FLT has recorded its investment in Buffalo Tours (Singapore) Pte Ltd and Buffalo Tours (Hongkong) Limited as joint ventures.

In addition to the new Buffalo joint ventures, FLT continues its involvement in two existing joint ventures as follows:

- A 50% shareholding in Employment Office Australia Pty Ltd, a recruitment business incorporated in Australia; and
- A 50% shareholding in Pedal Group Pty Ltd. Significant shareholdings for Pedal Group include a 100% shareholding in 99 Bikes Pty Ltd, a Brisbane-based chain of retail bike stores, and a 100% shareholding in Advance Traders (Australia) Pty Ltd, a Brisbane-based wholesale bike company. All companies are incorporated in Australia.

Contractual arrangements are in place to establish joint control over each entity's economic activities, including financial and operating decisions.

#### Share of joint venture carrying value

Joint venture information is presented in accordance with the accounting policy described in note 1(c)(ii) and is set out below.

	2015 \$'000	2014 \$'000
Interest in joint ventures	13,905	5,451

#### Significant matter

During the year, FLT converted related party loans of \$7,500,000 with Pedal Group Pty Ltd to equity under a debt to equity conversion arrangement. A total of \$15,000,000 additional equity was issued by Pedal Group Pty Ltd with our joint venture partners also converting \$7,500,000. FLT's relative ownership interest remained the same.

#### Share of joint venture results

Share of joint venture results	2015 \$'000	2014 \$'000
Profit or loss from continuing operations	235	1,346
<b>Total comprehensive income</b>	<b>235</b>	<b>1,346</b>

#### Share of joint venture commitments

Lease commitments	4,581	3,104
Capital expenditure commitments	113	-

## NOTES TO THE FINANCIAL STATEMENTS continued

### E2 Related party transactions

#### Parent entity

FLT is the ultimate parent entity within the group.

#### Subsidiaries and joint ventures

Interests in subsidiaries are set out in note G1 and interests in joint ventures are set out in note E1.

FLT is a joint venture partner in Pedal Group Pty Ltd. The other joint venture partners are related parties, namely Graham Turner's family company, Gainsdale Pty Ltd (25%), and Graham Turner's son Matthew Turner (19%). The remaining 6% is held by employees who are not considered related parties.

#### KMP compensation

KMP disclosures are set out in note D1.

#### Transactions with related parties

	2015 \$	2014 \$
<b>Income from joint venture related parties</b>		
Management fees	164,851	128,528
Fit-out	-	4,439
Travel and conference	307,577	443,976
Rent	230,731	330,502
IT services	46,871	101,474
Interest income	159,602	462,413
Override income	255,680	-
Other	265,791	71,870
<b>Expenses to joint venture related parties</b>		
Recruitment advertising expense	2,669,784	2,851,346
<b>Income from director related entities</b>		
Marketing	500,000	-
Service fee income	197,570	141,277
Other	4,635	-
<b>Expenses to director related entities</b>		
Conference expense	323,570	125,448
Travel Expo expense	437,996	1,619,456
Marketing expense	98,163	1,380

From time to time, related entities may enter into transactions with FLT. These transactions are on the same terms and conditions as those entered into by other FLT subsidiaries or customers.

Joint venture related parties can choose to use FLT group purchasing ability and any costs incurred are passed directly through. These transactions are included in the disclosure above.



## E2 Related party transactions (continued)

### Outstanding balances

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

	Notes	2015 \$	2014 \$
<b>Joint ventures</b>			
Current receivables		335,496	330,243
Current payables		269,864	205,418
<b>Director-related entities</b>			
Current receivables		64,624	66,064
Prepaid expenses		-	68,602
Current payables		39,124	4,386

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.

### Loans to/from related parties

		2015 \$'000	2014 \$'000
<b>Loans to joint-venture related parties</b>			
<b>Beginning of the year</b>		10,693	7,407
Loans advanced		-	4,600
Loans repaid		(2,305)	(1,775)
Debt to equity conversion		(7,500)	-
Interest charged		162	461
<b>End-of-year</b>	C3	1,050	10,693

### Significant matter

During the year, FLT converted related party loans of \$7,500,000 with Pedal Group Pty Ltd to equity under a debt to equity conversion arrangement. A total of \$15,000,000 additional equity was issued by Pedal Group Pty Ltd with our joint venture partners also converting \$7,500,000. FLT's relative ownership interest remained the same.

No provisions for doubtful debts have been raised in relation to any outstanding balances.

All loans to related parties were made on normal commercial terms and conditions and at market rates, except that the repayment terms are 10 years. The interest rate on loans during the year ranged from 3.89% - 4.45% (2014: 4.26% - 4.91%).

		2015 \$'000	2014 \$'000
<b>Loans from related parties</b>			
<b>Beginning of the year</b>		(322)	(287)
Loans advanced		-	(1)
Loans repaid		342	-
Interest charged		(3)	(6)
Foreign exchange movement		(17)	(28)
<b>End-of-year</b>		-	(322)

All loans from related parties were made on normal commercial terms and conditions and at market rates. The interest rate on loans during the year ranged from 2.25% - 2.27% (2014: 2.22% - 2.61%).

### Terms and conditions

All other transactions were made on normal commercial terms and conditions and at market rates. Outstanding balances are unsecured and are repayable in cash.

## NOTES TO THE FINANCIAL STATEMENTS continued

### F Other information

This section provides the remaining information relating to the FLT annual report that must be disclosed to comply with the accounting standards and other pronouncements.

- F1 Other expenses
  - Employee benefits
  - Rent expense
  - Operating lease commitments
- F2 Earnings per share
- F3 Trade and other receivables
- F4 Property, plant and equipment
- F5 Intangible assets
- F6 Trade and other payables
- F7 Financial liabilities at fair value through profit or loss
- F8 Provisions
- F9 Reserves
- F10 Tax
- F11 Auditor's Remuneration

### F1 Other expenses

This note sets out other expenses, which have not been previously disclosed.

#### Employee benefits expense

	2015 \$'000	2014 \$'000
Defined contribution superannuation expense	67,596	60,511
Other employee benefits expense	1,216,065	1,091,363
<b>Total employee benefits expense</b>	<b>1,283,661</b>	<b>1,151,874</b>
Staff numbers <sup>1</sup>	18,524	17,289

#### Rental expense relating to operating leases

Lease expense <sup>2</sup>	143,237	128,846
Shop numbers <sup>1</sup>	2,825	2,678

<sup>1</sup> Staff and shop numbers are unaudited, non-IFRS, non-financial information. This information has been included to aid understanding of the relevant balances. The balances represent the number at the end of the period.

<sup>2</sup> Elements of rental expense are contingent upon such factors as CPI growth or fixed % increases (as stated in the lease agreement) and individual shop turnover. Total rental expense includes all elements of rent, including those that are contingent to the extent known.

## F1 Other expenses (continued)

### Operating lease commitments

The following table sets out FLT's commitments for operating leases. These are not required to be recognised in the current year's results and do not form part of other expenses noted above.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	2015 \$'000	2014 \$'000
Within one year	139,167	121,782
Later than one year but not later than five years	337,044	284,958
Later than five years	178,083	163,885
<b>Total operating lease commitments</b>	<b>654,294</b>	<b>570,625</b>

The operating leases above relate primarily to occupancy leases of varying terms, generally between five and seven years, and have escalation clauses and renewal rights. Included in the above are rental payments including escalation based on fixed dollar or percentage increases, as stated in the lease agreement.

## F2 Earnings per share

### Overview

Statutory earnings per share (EPS) reached 254.7 cents, up 23.8% on the prior comparative period. At an underlying level<sup>1</sup>, EPS decreased 3.5% to 253.0 cents (2014: 262.2 cents).

	2015 Cents	2014 Cents
<b>Basic earnings per share</b>		
Profit attributable to the company's ordinary equity holders	254.7	205.8
<b>Diluted earnings per share</b>		
Profit attributable to the company's ordinary equity holders	254.3	205.5
<b>Reconciliations of earnings used in calculating EPS</b>	<b>\$'000</b>	<b>\$'000</b>
Profit attributable to the company's ordinary equity holders used in calculating basic and diluted earnings per share	256,553	206,918
<b>Weighted average number of shares used as the denominator</b>	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	100,713,712	100,523,681
<b>Adjustments for calculation of diluted earnings per share:</b>		
Options and rights	185,553	182,168
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	100,899,265	100,705,849

<sup>1</sup>Underlying EPS are unaudited, non-IFRS measures. Refer to note B6 for breakdown of underlying NPAT used in the calculation of underlying EPS.

### Information concerning the classification of securities

#### Options and rights

Options and rights granted under the Senior Executive Option Plan and Senior Executive Performance Rights Plan are considered contingently issuable ordinary shares if they have met the related earnings-based contingencies. They were included in the determination of diluted earnings per share during the year to the extent to which they were dilutive. The options and rights expired on 30 June 2015 and therefore have no future dilutive effect. The options and performance rights have not been included in the determination of basic earnings per share. Option and rights details are set out in note D3.

## NOTES TO THE FINANCIAL STATEMENTS continued

### F3 Trade and other receivables

	2015 \$'000	2014 \$'000
Trade receivables	448,581	379,349
Override receivables	193,695	165,090
Less: Provision for impairment of receivables	(6,784)	(6,878)
	635,492	537,561
GST receivable	2,224	3,299
Prepayments	31,879	23,100
Accrued interest	6,583	6,766
Other receivables	6,862	5,746
<b>Total trade and other receivables</b>	<b>683,040</b>	<b>576,472</b>

#### Accounting policy

Trade receivables relating to volume incentives (override receivables) are recognised at the amount receivable when annual targets are likely to be achieved.

Additional information on trade and other receivables accounting policies is included in note 1(I).

Refer to note A2 for factors that influence the recognition of override revenue and receivables.

#### Financial Risk Management

##### Market risk

##### Interest rate risk

Receivables are generally non-interest bearing and are not, therefore, subject to interest rate risk. The exception is other receivables, which generally arise from transactions outside the group's usual operating activities. Interest may be charged at commercial rates where the repayment terms exceed six months. Collateral is not normally obtained.

##### Foreign exchange risk

The group operates internationally and is subject to foreign exchange risk arising from exposure to foreign currencies.

In addition to identifying foreign exchange risk likely to arise from future commercial transactions, group treasury recognises assets and liabilities in foreign currencies and, where appropriate, uses forward exchange contracts to reduce foreign currency risk. All contracts expire within 12 months.

To manage the foreign exchange risks arising from the future principal and interest payments required on foreign currency denominated borrowings, the group has a multi-currency debt facility which allows principal and interest payments to be denominated into the relevant entity's functional currency for the underlying borrowings' full terms.

The group's exposure to foreign currency risk at the end of the reporting period is set out below:

Trade receivables	2015 \$'000	2014 \$'000
US Dollar	21,816	15,954
British Pound	858	674
Euro	8,468	1,705
Thai Baht	966	514
Fijian Dollar	778	334
New Zealand Dollar	796	720
Chinese Renminbi	117	380
Other	1,059	1,008

Foreign exchange risk on trade payables is set out in note F6.

### F3 Trade and other receivables (continued)

#### Fair value

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

#### Credit risk

Credit risk arises from exposure to corporate and retail customers, including outstanding receivables and committed transactions.

Credit risk management assesses corporate clients' credit quality by analysing external credit ratings, financial position and security available where appropriate. Individual risk limits are established for all corporate customers, in accordance with corporate credit policy, with regular monitoring and reporting to management. Sales to retail customers are settled in cash or via major credit cards, mitigating credit risk.

The maximum exposure to credit risk at the reporting period's end is the receivables carrying amount. The group does not hold collateral as security and evaluates the concentration of risk in respect of receivables as low, as its customers are located in many locations, industries and markets.

#### Provision for impairment of receivables

Movements in the provision for impairment of receivables are as follows:	2015 \$'000	2014 \$'000
At 1 July	6,878	5,798
Bad debts expense <sup>1</sup>	6,537	5,657
Changes due to foreign exchange translation	608	61
Receivables written off during the year as uncollectible	(7,239)	(4,638)
At 30 June	6,784	6,878

<sup>1</sup> The creation and release of the provision for impairment of receivables is included in other expenses in the statement of profit or loss and other comprehensive income.

The impaired receivables mainly relate to overdue receivables with a provision recorded against them in line with group policy or discrepancies under discussion with corporate clients.

#### Past due but not impaired

The trade receivables past due but not impaired ageing analysis is as follows:

	2015 \$'000	2014 \$'000
Up to 9 months	92,062	73,393
Over 9 months	282	333
<b>Total past due but not impaired</b>	<b>92,344</b>	<b>73,726</b>

These receivables are due from a number of large corporate customers and suppliers and full recovery is expected because of contractual agreements.

## NOTES TO THE FINANCIAL STATEMENTS continued

### F4 Property, plant and equipment

#### Accounting policy

##### Useful lives

Land is not depreciated. For other assets, depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Buildings 30 years
- Plant and equipment 2 - 8 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each reporting period's end.

Additional information on property, plant and equipment accounting policies is included in note I(m).

	Freehold land & buildings \$'000	Plant & equipment \$'000	Total \$'000
<b>Opening balance at 1 July 2013</b>			
Cost	44,567	306,659	351,226
Accumulated depreciation	(5,625)	(186,918)	(192,543)
<b>Net book amount at 1 July 2013</b>	<b>38,942</b>	<b>119,741</b>	<b>158,683</b>
<b>Opening balance at 1 July 2014</b>			
Cost	45,256	337,806	383,062
Accumulated depreciation	(7,011)	(215,135)	(222,146)
<b>Net book amount at 1 July 2014</b>	<b>38,245</b>	<b>122,671</b>	<b>160,916</b>
<b>At 30 June 2015</b>			
Cost	45,041	420,536	465,577
Accumulated depreciation	(8,196)	(261,081)	(269,277)
<b>Net book amount at 30 June 2015</b>	<b>36,845</b>	<b>159,455</b>	<b>196,300</b>
<b>At 30 June 2015</b>			
Additions	-	78,081	78,081
Acquisitions	-	981	981
Disposals <sup>1</sup>	-	(2,209)	(2,209)
Depreciation expense	(1,227)	(45,476)	(46,703)
Exchange differences	(173)	5,407	5,234
<b>Net book amount at 30 June 2015</b>	<b>36,845</b>	<b>159,455</b>	<b>196,300</b>

<sup>1</sup>Balances shown net of accumulated depreciation.

## F5 Intangible assets

### Overview

FLT continues its strategic investment in projects that will ultimately underpin its transition from a leisure and corporate travel agent to an innovative retailer. As part of this transition, various systems are being upgraded to enhance productivity in-store and to deliver a better experience to customers across all sales channels.

	Goodwill \$'000	Brand names and customer relationships <sup>1</sup> \$'000	Internally generated and other intangible assets <sup>2</sup> \$'000	Total \$'000
<b>Opening balance at 1 July 2013</b>				
Cost	332,246	66,666	55,530	454,442
Accumulated amortisation (including accumulated impairment losses)	(32,401)	(19,007)	(36,345)	(87,753)
<b>Net book amount at 1 July 2013</b>	<b>299,845</b>	<b>47,659</b>	<b>19,185</b>	<b>366,689</b>
<b>Additions</b>				
Acquisitions	2,011	-	-	2,011
Disposals <sup>3</sup>	-	-	(3,435)	(3,435)
Exchange differences	(1,430)	(41)	6	(1,465)
Amortisation	-	(3,377)	(6,210)	(9,587)
Impairment	(27,300)	(31,552)	-	(58,852)
<b>Net book amount at 30 June 2014</b>	<b>273,126</b>	<b>12,689</b>	<b>18,760</b>	<b>304,575</b>
<b>Opening balance at 1 July 2014</b>				
Cost	332,270	66,258	60,097	458,625
Accumulated amortisation (including accumulated impairment losses)	(59,144)	(53,569)	(41,337)	(154,050)
<b>Net book amount at 1 July 2014</b>	<b>273,126</b>	<b>12,689</b>	<b>18,760</b>	<b>304,575</b>
<b>Additions</b>				
Acquisitions	37,040	11,145	-	48,185
Disposals <sup>3</sup>	-	-	(61)	(61)
Exchange differences	29,413	-	24	29,437
Amortisation	-	-	(7,400)	(7,400)
<b>Net book amount at 30 June 2015</b>	<b>339,579</b>	<b>23,834</b>	<b>22,836</b>	<b>386,249</b>
<b>Closing balance at 30 June 2015</b>				
Cost	411,670	82,865	71,546	566,081
Accumulated amortisation (including accumulated impairment losses)	(72,091)	(59,031)	(48,710)	(179,832)
<b>Net book amount at 30 June 2015</b>	<b>339,579</b>	<b>23,834</b>	<b>22,836</b>	<b>386,249</b>

<sup>1</sup> Customer relationships are amortised over their expected useful life, not exceeding seven years.

<sup>2</sup> Other intangible assets predominantly relate to software and are amortised using the straight-line method over the project's period of expected future benefits, which varies from 2.5 to 5 years.

<sup>3</sup> Balances shown net of accumulated amortisation.

## NOTES TO THE FINANCIAL STATEMENTS continued

### F5 Intangible assets (continued)

#### Impairment tests

##### *Critical accounting estimates, assumptions and judgments - impairment of goodwill*

The group tests goodwill annually for impairment, in accordance with the accounting policy stated in note I(f). The CGUs recoverable amounts have been determined based on value-in-use calculations. These calculations use cash flow projections based on management-approved financial budgets and cover a five-year period. Refer below for details of these assumptions and the potential impacts of reasonable changes to the assumptions.

Goodwill is allocated to the CGUs, identified according to relevant business and country of operation. Each segment includes a number of separately identifiable CGUs. A segment level summary of the goodwill allocation is presented below:

Goodwill	Australia <sup>1</sup> \$'000	United Kingdom <sup>2</sup> \$'000	United States <sup>1</sup> \$'000	Other countries <sup>3</sup> \$'000	Total \$'000
2015	158,144	83,194	27,315	70,926	339,579
2014	137,280	81,296	22,817	31,733	273,126

#### Goodwill impairment

2015	-	-	-	-	-
2014	-	-	(14,300)	(13,000)	(27,300)

#### Brand names

2015	-	-	12,689	11,145	23,834
2014	-	-	12,689	-	12,689

#### Brand names impairment

2015	-	-	-	-	-
2014	-	-	(29,600)	-	(29,600)

The \$29,600,000 of brand name impairment in 2014 was allocated to a CGU within the US segment for impairment testing purposes. However, for note A1 the impairment charge was included in other segment, as brand names are managed by the global teams. Additionally \$1,952,000 of customer relationship intangibles were impaired in 2014 in the United States segment.

Intangibles with indefinite lives are brand names. FLT owns these brands and intends to continue to use them indefinitely.

#### Current year

There were no impairment charges in 2015.

#### Prior year

On 25 July 2014, FLT announced non-cash write-downs to goodwill, brand names, and customer relationships of \$13,000,000 in India and \$48,300,000 in the United States (\$2,448,000 of this in property, plant and equipment - refer to note F4).

The write-downs related to the corporate travel business cash-generating unit (CGU) in India and the Liberty (leisure) and GOGO (wholesale) businesses CGU in the US.

In India, the corporate travel business had generally been profitable, but had not delivered the consistent year-on-year profit growth that FLT initially expected.

The US businesses were acquired in 2008, just before the dawn of the US recession and the Global Financial Crisis, along with a product contracting area that has delivered solid returns within the Flight Centre Global Product (FCGP) business.

While overall, both the India and US businesses were profitable during the 2014 period and the US achieved another record result during 2013/14, the profit contribution from various acquired brands in both countries had not been large enough to justify the carrying values pre-impairment. The overall India business also includes the retail business and the overall US business also includes the corporate travel business.



## F5 Intangible assets (continued)

### (a) Key assumptions used for value-in-use calculations

	Discount rate <sup>5</sup>	
	2015 %	2014 %
<b>Goodwill</b>		
<b>CGU</b>		
Australia <sup>1</sup>	15.5	15.4
United Kingdom <sup>2</sup>	15.5	15.4
United States <sup>1</sup>	15.8	16.6
India <sup>3</sup>	20.7	22.0
Other countries (excluding those listed above) <sup>4</sup>	15.5	15.4
<b>Brand names</b>		
United States <sup>1</sup>	15.8	16.6

<sup>1</sup> The individually significant CGUs are Corporate and Retail.

<sup>2</sup> The individually significant CGU is Corporate.

<sup>3</sup> The India CGU is Corporate.

<sup>4</sup> Other countries consist of a number of individually insignificant CGUs.

<sup>5</sup> In performing the value-in-use calculations for each CGU, the company has applied post-tax discount rates to discount the forecast future attributable post-tax cash flows. The equivalent pre-tax discount rates are disclosed. The discount rates are calculated each year based on market data and applied to each individually significant CGU within each geography.

For the purposes of impairment testing, under the value-in-use model terminal growth rates were not applied to all CGUs. The exceptions are the United States and India, where rates between 2.3% and 5.5% (2014: 2.3% and 5.5%) are used to extrapolate cash flows beyond the budget period.

These assumptions have been used for the analysis of each CGU within the business segment, in line with local long-term inflation.

The basis of estimation of the cash flows uses the following key operating assumptions:

- Five year budgeted EBITDA is based on management's forecasts of revenue from travel services, taking into account expected TTV growth
- Revenue forecasts take into account historical revenue and consider external factors such as market sector and geography
- Costs are calculated taking into account historical margins, known increases and estimated inflation rates over the period consistent with the locations in which the CGUs operate

Management has calculated the discount rates based on available market data and data from comparable listed companies within the travel sector.

### (b) Impact of possible changes in key assumptions

Given the impairment charges taken during the prior year in the US and India, any adverse change in a key assumption could result in additional impairment in those CGUs.

Management has performed sensitivity analyses and there are no reasonably possible changes in a key assumption which would cause a CGU's carrying value to exceed its recoverable amount, except for the US as detailed below.

#### United States

For the Liberty (leisure) and GOGO (wholesale) businesses there are reasonably possible changes in key assumptions (discussed below) that could cause the carrying value to exceed its recoverable amount.

##### **Discount rate assumptions:**

Management recognises the actual time value of money may vary to what it has estimated.

Management notes the post-tax discount rate will have to increase by greater than 1% for the recoverable amount to fall below carrying amount.

##### **Budgeted EBITDA assumptions:**

Management recognises actual results (EBITDA) may vary to what has been estimated. Management has used growth rates for years two to five and should nil growth be achieved the recoverable amount will fall below the carrying amount, which is considered to be a reasonably possible change in EBITDA.

## NOTES TO THE FINANCIAL STATEMENTS continued

### F6 Trade and other payables

	2015 \$'000	2014 \$'000
<b>Current</b>		
Trade payables	389,692	282,196
Client creditors	553,648	636,698
Accrued unsecured note interest	4,309	4,733
Annual leave	37,501	33,759
Straight-line lease liability	5,350	4,308
<b>Total current trade and other payables</b>	<b>990,500</b>	<b>961,694</b>
<b>Non-current</b>		
Lease incentive liability	7,801	4,859
Straight-line lease liability	14,867	14,011
<b>Total non-current trade and other payables</b>	<b>22,668</b>	<b>18,870</b>

### Financial Risk Management

#### Market risk

##### *Foreign exchange risk*

The group's exposure to foreign currency risk on trade and other payables and financial liabilities at fair value through profit or loss at the end of the reporting period is set out below:

	2015 \$'000	2014 \$'000
US Dollar	251,862	92,249
British Pound	14,811	11,323
Euro	30,361	24,345
Thai Baht	19,408	17,974
Fijian Dollar	25,706	23,709
New Zealand Dollar	11,105	10,680
Canadian Dollar	6,089	5,865
Hong Kong Dollar	4,226	4,270
Malaysian Ringgit	2,985	4,291
French Pacific Franc	3,799	3,612
Singapore Dollar	9,261	8,491
South African Rand	2,311	2,209
United Arab Emirates Dirham	3,998	3,966
Mauritian Rupee	2,137	330
Vanuatu Vatu	627	1,756
Japanese Yen	896	653
Chinese Renminbi	527	703
Other	897	830

Refer to note F3 for the group's approach to foreign exchange risk and the group's exposure to foreign currency risk on trade receivables.

##### *Fair value*

The remaining trade and other payables' carrying amounts are assumed to be the same as their fair values, due to their short-term nature.

## F7 Financial liabilities at fair value through profit or loss

	2015 \$'000	2014 \$'000
Financial liabilities at fair value through profit or loss	384,039	211,306

## Financial Risk Management

### Fair value

In the prior year ended 30 June 2014, the group elected to designate certain client creditor liabilities as financial liabilities at fair value through profit or loss, as allowed under AASB 139 *Financial Instruments: Recognition and Measurement* to significantly reduce a measurement inconsistency. This inconsistency previously arose due to the timing of foreign exchange measurement on client creditor balances that will be settled in a foreign currency. The fair value adjustment through profit or loss in the year ended 30 June 2014 was \$584,000, which was recognised in unrealised net foreign exchange losses (note A4).

The client creditor balances that will be settled in a foreign currency are measured based on observable forward exchange rates, the respective currencies' yield curves and the respective currencies' basis spreads.

The financial liabilities at fair value through profit or loss are classified as Level 2 (2014: Level 2) under the AASB 13 Fair value measurement hierarchy, based on the valuation technique as described above.

## F8 Provisions

	Notes	2015 \$'000	2014 \$'000
<b>Current</b>			
Employee benefits - long service leave		26,667	22,643
<b>Total current provisions</b>		<b>26,667</b>	<b>22,643</b>
<b>Non Current</b>			
Employee benefits - long service leave		14,780	14,583
Employee benefits - other long-term benefits	D2	5,672	4,791
Make good provision		15,670	10,822
<b>Total non-current provisions</b>		<b>36,122</b>	<b>30,196</b>

## Movements in provisions

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

	Notes	2015 \$'000
<b>Make Good Provision</b>		
Carrying amount at start of year		10,822
Additional provisions recognised		5,529
(Decrease) / increase in discounted amount arising from passage of time and discount rate adjustments	A4	(387)
Other changes		(294)
<b>Carrying amount at end of year</b>		<b>15,670</b>

## NOTES TO THE FINANCIAL STATEMENTS continued

### F8 Provisions (continued)

#### Long service leave (LSL)

##### Amounts not expected to be settled within 12 months

The current portion of the LSL provision represents the amount where the group does not have an unconditional right to defer settlement for at least 12 months after the reporting date, as the employees have completed the required service period and also certain circumstances where employees are entitled to pro-rata payments. However, based on past experience, the group does not expect all employees to take the full amount of accrued long service leave or require payment within the next 12 months.

The following amounts reflect this leave that is not expected to be taken or paid within the next 12 months:

	Notes	2015 \$'000	2014 \$'000
Long service leave obligations expected to be settled after 12 months		21,475	17,305

### F9 Reserves

Reserves		2015 \$'000	2014 \$'000
Available-for-sale investments revaluation reserve		(123)	(673)
Share-based payments reserve		9,353	8,885
Foreign currency translation reserve		27,729	(35,383)
<b>Total reserves</b>		<b>36,959</b>	<b>(27,171)</b>

#### Movements in reserves:

##### Available-for-sale investments revaluation reserve

Balance 1 July		(673)	(1,079)
Revaluation gross		786	579
Deferred tax	F10	(236)	(173)
<b>Balance 30 June</b>		<b>(123)</b>	<b>(673)</b>

Changes in the fair value and exchange differences arising on translation of investments that are classified as available-for-sale financial assets are recognised in other comprehensive income, as described in note I(j), and accumulated in a separate reserve within equity. Amounts are reclassified to profit or loss when the associated assets are sold or impaired.

##### Share-based payments reserve

Balance 1 July		8,885	6,861
Share-based payments expense		502	479
Deferred tax	F10	(34)	1,545
<b>Balance 30 June</b>		<b>9,353</b>	<b>8,885</b>

The share-based payments reserve is used to recognise the fair value of options issued as they vest over the vesting period.

##### Foreign currency translation reserve

Balance 1 July		(35,383)	(41,251)
Net exchange differences on translation of foreign operations		62,079	5,568
Deferred tax	F10	1,033	300
<b>Balance 30 June</b>		<b>27,729</b>	<b>(35,383)</b>

Exchange differences arising on translation of the foreign controlled entities are recognised in other comprehensive income, as described in note I(d), and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed.

## F10 Tax

### (a) Income tax expense

	2015 \$'000	2014 \$'000
<b>(i) Income tax expense</b>		
Current tax	105,225	110,710
Deferred tax	5,265	6,023
Adjustments for current tax of prior periods	(746)	129
<b>Income tax expense</b>	<b>109,744</b>	<b>116,862</b>
<i>Deferred income tax expense / (revenue) included in income tax expense comprises:</i>		
(Increase) / decrease in deferred tax assets	1,896	4,930
Increase / (decrease) in deferred tax liabilities	3,369	1,093
	5,265	6,023
<b>Numerical reconciliation of income tax expense to prima facie tax payable</b>		
Profit before income tax expense	366,297	323,780
Tax at the Australian tax rate of 30% (2014 - 30%)	109,889	97,134
<i>Tax effect of amounts which are not deductible / (assessable) in calculating taxable income:</i>		
Non-deductible / (assessable) amounts	2,799	1,911
Impairment	-	17,374
ACCC fine	-	3,309
Other amounts	(801)	(349)
	111,887	119,379
Tax losses not recognised	947	512
Effect of different tax rates on overseas income	(2,344)	(3,158)
Under / (over) provision of prior year's income tax	(746)	129
	(2,143)	(2,517)
<b>Income tax expense</b>	<b>109,744</b>	<b>116,862</b>

### (ii) Amounts recognised directly in equity

Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss and other comprehensive income but directly debited or credited to equity. This relates entirely to share-based payments as set out in note F9.

Net deferred tax - (credited) / debited directly to equity	34	(1,545)
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### (iii) Tax expense / (income) relating to items of other comprehensive income

Available-for-sale financial assets and cash flow hedges	236	173
Foreign exchange reserve	(1,033)	(300)
<b>Total tax expense / (income) relating to items of other comprehensive income</b>	<b>(797)</b>	<b>(127)</b>

### (iv) Unrecognised potential deferred tax assets

Unused tax losses for which no deferred tax asset has been recognised (non-capital)	6,950	6,355
Temporary timing differences relating to brand name impairment (capital)	29,600	29,600
<b>Potential tax benefit at 30% (2014 - 30%)</b>	<b>10,965</b>	<b>10,787</b>

All unused tax losses in 2015 and 2014 were incurred by entities in the United States, Hong Kong, China, and South Africa that are not part of the tax consolidated group. In most cases, the unused tax losses have no expiry date.

## NOTES TO THE FINANCIAL STATEMENTS continued

### F10 Tax (continued)

#### (b) Deferred tax assets (DTA)

The balance comprises temporary differences attributable to:	Notes	2015 \$'000	2014 \$'000
Doubtful debts		1,476	1,832
Employee benefits	F10(a)(ii)	23,628	22,410
Property, plant and equipment and intangibles		12,335	13,442
Accruals		4,043	5,647
Losses		668	670
Leasing		11,456	9,048
Provisions		247	2,740
Other	F10(a)(iii)	328	1,366
		54,181	57,155
Set-off of deferred tax liabilities pursuant to set-off provisions		(18,046)	(14,451)
<b>Net deferred tax assets</b>		<b>36,135</b>	<b>42,704</b>

All movements in DTA were recognised in the statement of profit or loss and other comprehensive income, with the exception of items stated in note F10(a)(ii) and (iii).

#### (c) Deferred tax liabilities (DTL)

The balance comprises temporary differences attributable to:	Notes	2015 \$'000	2014 \$'000
Trade and other receivables		13,420	9,120
Property, plant and equipment and intangibles		4,109	1,493
Leasing		394	3,684
Other	F10(a)(iii)	258	501
		18,181	14,798
Set-off of deferred tax liabilities pursuant to set-off provisions		(18,046)	(14,451)
<b>Net deferred tax liabilities</b>		<b>135</b>	<b>347</b>

All movements in DTL were recognised in the statement of profit or loss and other comprehensive income, with the exception of items stated in note F10(a)(iii).

## F11 Auditor's remuneration

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

	2015 \$	2014 \$
<b>Amounts received or due and receivable by Ernst &amp; Young for:</b>		
An audit or review of the financial report of FLT and any other entity in the consolidated group	1,120,941	1,065,156
Other services in relation to FLT and any other entity in the consolidated group	406,916	17,303
	<b>1,527,857</b>	<b>1,082,459</b>
<b>Amounts received or due and receivable by related practices of Ernst &amp; Young for:</b>		
An audit or review of the financial report of FLT and any other entity in the consolidated group	991,159	863,416
<b>Other services in relation to FLT and any other entity in the consolidated group</b>		
Tax compliance	17,062	7,630
Special audits required by regulators	5,114	10,618
Other services	22,901	38,725
	<b>1,036,236</b>	<b>920,389</b>
	<b>2,564,093</b>	<b>2,002,848</b>
<b>Amounts received or due and receivable by non Lead Auditor audit firms for:</b>		
An audit or review of the financial report of FLT and any other entity in the consolidated group	12,363	79,631
<b>Other services in relation to FLT and any other entity in the consolidated group</b>		
Special audits required by regulators	-	2,989
	<b>12,363</b>	<b>82,620</b>

## NOTES TO THE FINANCIAL STATEMENTS continued

### G Group structure

This section explains significant aspects of the FLT group structure and how changes have affected the group.

- G1 Subsidiaries
- G2 Deed of cross guarantee
- G3 Parent entity financial information

### G1 Subsidiaries

#### Material subsidiaries

The group's principal subsidiaries are set out below. They have share capital consisting solely of ordinary shares that the group holds directly, and the proportion of ownership interests held equals the group's voting rights. The country of incorporation or registration is also their place of business.

Subsidiaries that sell travel or travel related services, and contribute to more than 5% of the group's net profit before tax or 5% of the group's net assets are considered material to the group.

	Country of incorporation	Class of shares/ownership	2015 %	2014 %
Australian OpCo Pty Ltd <sup>1</sup>	Australia	Ordinary	100	100
Flight Centre (UK) Limited	United Kingdom	Ordinary	100	100
FC USA Inc	USA	Ordinary	100	100

<sup>1</sup>This controlled entity has 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 G2.

There have been no significant judgments or assumptions in determining the entities' consolidation.

There are no significant restrictions on the entities' ability to access or use the assets and settle the liabilities of the group.

#### Non-controlling interests

The group has no material non-controlling interests.

### G2 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 lodgement of financial reports and directors' report.

There is one deed in effect. The subsidiaries to the deed are Flight Centre Travel Group Limited (Holding Entity), Australian OpCo Pty Ltd, P4 Finance Pty Ltd, Travel Services Corporation Pty Ltd and Flight Centre Technology Pty Ltd.

The Flight Centre Travel Group Limited and Flight Centre Technology Pty Ltd deed was revoked on 28 December 2013, and Flight Centre Technology Pty Ltd became a party to the one remaining deed above by virtue of a Deed of Assumption on 28 December 2013.

The Class Order requires the company and each of the subsidiaries to enter into a Deed of Cross Guarantee. The deed's effect is that the company guarantees each creditor payment in full of any debt if any of the subsidiaries are wound up 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.

The above companies represent a Closed Group for the purposes of the Class Order and, as there are no other parties to the Deed of Cross Guarantee that are controlled by FLT, they also represent the Extended Closed Group.



## G2 Deed of cross guarantee (continued)

Set out below is the consolidated statement of profit or loss and other comprehensive income, consolidated balance sheet and a summary of movements in consolidated retained earnings for the company and the subsidiaries listed above:

	For the year ended 30 June	
	2015 \$'000	2014 \$'000
<b>Revenue</b>		
Revenue from the sale of travel services	1,302,238	1,305,938
Other revenue	54,185	55,774
<b>Total revenue</b>	<b>1,356,423</b>	<b>1,361,712</b>
Other income	2,673	5,127
<b>Expenses</b>		
Employee benefits	(691,695)	(651,134)
Sales and marketing	(90,949)	(90,354)
Rental expenses relating to operating leases	(83,392)	(76,067)
Amortisation and depreciation	(31,913)	(28,605)
Finance costs	(14,572)	(21,963)
Share of profit / (loss) from joint venture	235	1,346
Impairment charge	-	(29,600)
Other expenses	(154,530)	(199,048)
<b>Profit before income tax expense</b>	<b>292,280</b>	<b>271,414</b>
Income tax expense	(85,762)	(97,322)
<b>Profit after income tax expense</b>	<b>206,518</b>	<b>174,092</b>
<b>Statement of comprehensive income</b>		
Changes in the fair value of available-for-sale financial assets	786	547
Income tax expense on items of other comprehensive income	(236)	(164)
<b>Total comprehensive income for the year</b>	<b>207,068</b>	<b>174,475</b>
<b>Summary of movements in consolidated retained profits</b>		
Retained profits at the beginning of the financial year	645,784	618,476
Profit from ordinary activities after income tax expense	206,518	174,092
Dividends provided for and paid	(153,108)	(146,784)
<b>Retained profits at the end of the financial year</b>	<b>699,194</b>	<b>645,784</b>

## NOTES TO THE FINANCIAL STATEMENTS continued

### G2 Deed of cross guarantee (continued)

	As at 30 June	
	2015 \$'000	2014 \$'000
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	782,047	795,219
Available-for-sale financial assets	75,579	40,794
Trade and other receivables	359,839	321,119
Current tax receivable	8,394	244
Inventories	194	198
Derivative financial instruments	3,572	-
Other financial assets	13,900	12,886
<b>Total current assets</b>	<b>1,243,525</b>	<b>1,170,460</b>
<b>Non-current assets</b>		
Property, plant and equipment	88,766	72,047
Intangible assets	44,947	42,199
Investments accounted for using the equity method	594,301	497,122
Deferred tax assets	28,934	31,535
Other financial assets	121,256	88,838
<b>Total non-current assets</b>	<b>878,204</b>	<b>731,741</b>
<b>Total assets</b>	<b>2,121,729</b>	<b>1,902,201</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	353,646	427,773
Contingent consideration	12,304	-
Financial liabilities at fair value through profit or loss	384,039	211,306
Borrowings	10,278	12,004
Provisions	26,340	22,501
Current tax liabilities	-	4,420
Derivative financial instruments	-	9,175
<b>Total current liabilities</b>	<b>786,607</b>	<b>687,179</b>
<b>Non-current liabilities</b>		
Trade and other payables	194,254	143,507
Contingent consideration	6,420	-
Provisions	28,063	24,308
<b>Total non-current liabilities</b>	<b>228,737</b>	<b>167,815</b>
<b>Total liabilities</b>	<b>1,015,344</b>	<b>854,994</b>
<b>Net assets</b>	<b>1,106,385</b>	<b>1,047,207</b>
<b>Equity</b>		
Contributed equity	395,677	390,929
Reserves	11,514	10,494
Retained profits	699,194	645,784
<b>Total equity</b>	<b>1,106,385</b>	<b>1,047,207</b>

### G3 Parent entity financial information

#### Summary financial information

The financial information for the parent entity FLT, has been prepared on the same basis as the consolidated financial statements.

The individual financial statements for the parent entity show the following aggregate amounts:

	Parent	
	2015 \$'000	2014 \$'000
Current assets	1,251,317	1,168,741
<b>Total assets</b>	<b>2,132,665</b>	<b>1,963,076</b>
Current liabilities	776,945	1,001,715
<b>Total liabilities</b>	<b>1,332,860</b>	<b>1,170,081</b>
Contributed equity	395,677	390,929
Reserves		
Available-for-sale investments revaluation reserve	(120)	(669)
Share-based payments reserve	9,353	8,885
Retained profits	394,895	393,850
<b>Total shareholders' equity</b>	<b>799,805</b>	<b>792,995</b>
<b>Profit after tax for the year</b>	<b>154,153</b>	<b>124,798</b>
<b>Total comprehensive income</b>	<b>154,703</b>	<b>125,181</b>

#### Guarantees entered into by the parent entity

	Parent	
	2015 \$'000	2014 \$'000
<b>Unsecured</b>		
Canada	2,766	2,726
United Kingdom	97,328	47,502
Hong Kong	5,015	4,181
India	19,362	32,564
China	12,706	10,346
New Zealand	4,345	5,066
Other	17,319	9,975
<b>Total</b>	<b>158,841</b>	<b>112,360</b>

FLT, as parent entity, has provided both parent company guarantees and issued letters of credit to beneficiaries. The parent entity is liable to pay any claim, subject to the terms of the parent company guarantee or letter of credit, in the event that obligations are not met.

FLT has also entered into a deed of cross guarantee. Refer to note G2 for terms and parties to the deed.

No liability was recognised by the parent entity or consolidated entity, as the guarantee's fair values are immaterial.

#### Contingent liabilities of the parent entity

Contingent liabilities of the parent entity at 30 June 2015 have been disclosed in note H2.

## NOTES TO THE FINANCIAL STATEMENTS continued

### G3 Parent entity financial information (continued)

#### Contractual commitments

##### Operating leases

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	2015 \$'000	2014 \$'000
Within one year	86,297	78,089
Later than one year but not later than five years	231,236	189,775
Later than five years	140,080	130,529
<b>Total parent entity operating lease commitments</b>	<b>457,613</b>	<b>398,393</b>

The operating leases above relate primarily to occupancy leases of varying terms, generally between five and seven years, and have escalation clauses and renewal rights. Included in the above are rental payments including escalation based on fixed dollar or percentage increases, as stated in the lease agreement.

## H Unrecognised items

This section provides information about items that are not recognised in the financial statements but could potentially have a significant impact on the group's financial position and performance.

- H1 Commitments
- H2 Contingencies
- H3 Events occurring after the end of the reporting period

### H1 Commitments

FLT has commitments in relation to operating leases (refer to note F1).

### H2 Contingencies

#### Contingent assets and liabilities

On 31 July 2015, FLT won its appeal in the long running competition law test case initiated against it by the ACCC in relation to alleged breaches of the Trade Practices Act 1974. The Full Court of the Federal Court of Australia overturned the judgment that was handed down against FLT in December 2013 and the ACCC was ordered to pay FLT's legal costs for both the initial case and for the subsequent appeal. The judgment in FLT's favour means the \$11,000,000 in penalties were repaid to the company (interest yet to be repaid), and will be included in its financial results for 2015/16. Refer to note H3.

The case was initially heard in October 2012 and judgment was delivered in the ACCC's favour in December 2013. A subsequent penalty hearing concluded in February 2014, with \$11,000,000 in penalties imposed by the Federal Court that FLT paid in May 2014 and was reflected in the 2013/14 results.

The group had no other material contingent assets or liabilities.

### H3 Events occurring after the end of the reporting period

#### Koch Overseas de Mexico, S.A de C.V (Koch Overseas)

##### (a) Summary of Acquisition

On 17 July 2015, FLT completed the acquisition of the corporate travel business Koch Overseas based in Mexico City for consideration of USD\$1,400,000 (\$1,877,000) for 100% ownership. Prior to the acquisition Koch Overseas was part of the global FCm Travel Solutions travel management licensee network that FLT created in 2004. The acquired business will continue to operate as Koch Overseas trading under FCm Travel Solutions Mexico and will compliment FLT's existing corporate travel business in North America.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	As at acquisition date \$'000
<b>Purchase consideration</b>	
Cash paid	1,877
<b>Total purchase consideration</b>	<b>1,877</b>

FLT has provisionally recognised the fair values of Koch Overseas' identifiable assets and liabilities at acquisition date, based upon the best information available at the reporting date and may change as more information becomes available or as a result of audit procedures.

The assets and liabilities provisionally recognised as a result of the acquisition are as follows:

Fair value of net identifiable assets acquired	904
Goodwill arising on acquisition	973
<b>Net assets acquired</b>	<b>1,877</b>

## NOTES TO THE FINANCIAL STATEMENTS continued

### H3 Events occurring after the end of the reporting period (continued)

#### Revenue and profit contribution

Had the acquisition occurred on 1 July 2014, revenue and profit for the year ended 30 June 2015 would have been \$5,035,000 and \$219,000 respectively.

Koch Overseas will be reported within the Rest of World segment (note A1).

#### (b) Purchase consideration - cash outflow

Cash consideration	1,877
Less: balances acquired	(118)
<b>Outflow of cash - investing activities</b>	<b>1,759</b>

There was no deferred or contingent consideration in this acquisition.

#### (c) Assets and liabilities acquired

Cash and cash equivalents	118
Accounts receivable	2,807
Prepayments	1,102
Other assets	258
Property, plant and equipment	276
Deferred tax assets	201
Trade and other payables	(2,677)
Provisions	(725)
Loan	(455)
	<b>905</b>

Acquisition related costs of \$381,000 have been recorded as an expense in the profit and loss and in operating cash flows in the statement of cash flows.

The goodwill is attributable to instant access to the Mexico corporate travel market further expanding our presence beyond Canada and the USA in North America which will increase the overall revenue and profitability of the group.

#### ACCC competition law test case

On 31 July 2015, FLT won its appeal in the long running competition law test case initiated against it by the ACCC in relation to alleged breaches of the Trade Practices Act 1974. The Full Court of the Federal Court of Australia overturned the judgment that was handed down against FLT in December 2013 and the ACCC was ordered to pay FLT's legal costs for both the initial case and for the subsequent appeal. The judgment in FLT's favour means the \$11,000,000 in penalties were repaid to the company (interest yet to be repaid), and will be included in its financial results for 2015/16.

The case was initially heard in October 2012 and judgment was delivered in the ACCC's favour in December 2013. A subsequent penalty hearing concluded in February 2014, with \$11,000,000 in penalties imposed by the Federal Court that FLT paid in May 2014 and was reflected in the 2013/14 results.

#### Dividends

On 27 August 2015, FLT's directors declared a dividend for the year ended 30 June 2015. Refer to note B6 for details.

No other matters have arisen since 30 June 2015.

## I Summary of accounting policies

This section details FLT's accounting policies. Significant accounting policies are contained with the financial statement notes to which they relate and are not detailed in this section.

### I Summary of accounting policies

The principal accounting policies adopted in the consolidated financial report's preparation are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report is for the consolidated entity consisting of FLT and its subsidiaries.

#### (a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standard Board and the *Corporations Act 2001*. FLT is a for-profit entity for the purpose of preparing the financial statements.

#### Compliance with IFRS

The group's consolidated financial statements also comply with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

#### Early adoptions of standards

The group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2014 except as outlined below.

#### **Amendments made to AASB 101 Presentation of Financial Statements by AASB 2015-2 (Disclosure initiative)**

AASB 2015-2 merely clarifies the existing requirements around materiality, disaggregation, subtotals and ordering of notes. These disclosure changes were early adopted in the June 2015 financial statements.

#### 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, derivative financial instruments, contingent consideration, and financial liabilities at fair value through profit or loss.

#### Rounding of amounts

Amounts in the financial statements have been rounded off to the nearest thousand dollars, or in certain cases, the nearest dollar, in accordance with the Australian Securities and Investments Commission's Class Order 98/100.

#### Reclassification

Certain prior period amounts have been reclassified to conform to the current period's presentation, as outlined in note I.

#### (b) Changes in accounting policy

A number of new standards and amendments became effective in the current reporting period. FLT have assessed the following as impacting the group, all other

standards do not have a material impact on existing policies and therefore are not listed below.

#### **AASB 2014-1 Amendments to Australian Accounting Standards - Part A Annual Improvements to IFRSs 2010-2012 Cycle**

This standard sets out amendments to Australian Accounting Standards arising from annual improvements to IFRSs 2010-2012 Cycle and annual improvements to IFRSs 2011-2013 Cycle. The adoption of the standard has introduced new disclosures in relation to the following:

- Share-based payments disclosures in accordance with AASB 2 *Share-based Payments* whereby the definition of 'vesting condition' and 'market condition' have been clarified and the definition of 'performance condition' and 'service condition' introduced (refer to note D3)
- Business combination disclosures in accordance with AASB 3 *Business Combinations* whereby the classification requirements for contingent consideration in a business combination have been clarified (refer to note A5)
- Segment information disclosures in accordance with AASB 8 *Operating Segments* whereby factors used to identify the entity's reportable segments when operating segments have been aggregated are now disclosed (refer to note A1)

#### (c) Principles of consolidation

##### (i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all FLT subsidiaries at 30 June 2015 and the subsidiaries' results for the year then ended. FLT and its subsidiaries together are referred to in this financial report as the group or the consolidated entity.

Subsidiaries are all entities (including structured entities) over which the group has control. FLT controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the entity's activities. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date control ceases.

The acquisition method of accounting is used to account for business combinations by the group (refer to note I(g) Business Combinations).

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 transferred asset's impairment. Subsidiaries' accounting policies

## I Summary of accounting policies (continued)

have been changed, where necessary, to ensure consistency with the group's policies.

Investments in subsidiaries are accounted for at cost in FLT's individual financial statements.

### (ii) Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures (JVs). The classification depends on each investor's contractual rights and obligations, rather than the legal structure of the joint arrangement. FLT only has JVs, which are accounted for in the consolidated financial statements using the equity method. Under the equity method, they are initially recognised at cost by the parent entity and subsequently the share of the JV entity's profit or loss is recognised in the statement of profit or loss and other comprehensive income. The share of post-acquisition movements in reserves is recognised in other comprehensive income. JV details are set out in note E1.

Upon loss of joint control, FLT measures and recognises its remaining investment at its fair value. The difference between the investment's carrying amount upon loss of joint control and the remaining investment's fair value and proceeds from disposal is recognised in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as an investment in associate.

### (iii) Changes in ownership interests

The group treats transactions with non-controlling interests that do not result in a loss of control as transactions with group equity owners. An ownership change will result in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to FLT owners.

When the group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group has directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a JV or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

### (d) Foreign currency translation

#### (i) Functional and presentation currency

Items included in each of the group entities' financial statements 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 FLT's functional and presentation currency.

#### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency at the prevailing exchange rates at the transaction dates. 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 profit or loss. Exceptions arise if the gains and losses are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss and other comprehensive income within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss and other comprehensive income on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated at the exchange rates when the fair value is determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary 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 assets, such as equities classified as available-for-sale financial assets, are recognised in other comprehensive income.

#### (iii) Group companies

For foreign operations with different functional currencies to the presentation currency, results and financial position are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate of that balance sheet's date
- Income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rates; and
- All resulting exchange differences are recognised in other comprehensive income

On consolidation, exchange differences arising from the translation of any net investment in foreign entities and of borrowings and other financial instruments designated as hedges of such investments are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange difference is reclassified to profit or loss, as part of the gain or loss on sale where applicable.



## I Summary of accounting policies (continued)

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

### (e) Revenue

For the accounting policy on revenue from travel services, refer to note A2.

Revenue is measured at the fair value of the consideration received or receivable and is recognised for the other major business activities as set out below.

#### (i) Lease income

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

#### (ii) 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 instrument's original effective interest rate, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

#### (iii) Dividends

Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

#### (iv) Royalties

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

### (f) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation but are impairment tested annually or more frequently if events or changes in circumstances indicate they might be impaired. 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, or value-in-use. To assess 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 asset groups (cash-generating units).

Impaired non-financial assets, other than goodwill, are reviewed for the impairment's possible reversal at each reporting date.

Financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For equity investments classified as available-for-sale, a significant or prolonged decline in the security's fair value below its cost is considered an indicator that the assets are

impaired. Impairment is recorded and losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the asset's initial recognition (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

### (g) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for a subsidiary's acquisition comprises the transferred assets' fair values, the liabilities incurred and the equity interest issued by the group. The consideration transferred also includes any contingent consideration arrangement's fair value and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. Where equity instruments are issued in an acquisition, the instruments' fair values are their published market prices at the exchange date. Transaction costs arising on equity instruments' issue are recognised directly in equity.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the acquired subsidiary's net identifiable assets and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, future amounts payable are discounted to their present value at the exchange date. 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.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as equity are not remeasured and subsequent settlement is accounted for within equity. Amounts classified as financial liabilities are subsequently remeasured to fair value, with changes in fair value recognised in profit or loss.

### (h) Intangible assets

#### (i) Goodwill

Goodwill represents the excess of the acquisition's cost over the fair value of the group's interest in the fair value of the acquired subsidiary or associate's net identifiable assets at the acquisition date. Goodwill is not amortised but is impairment tested annually or more frequently if

## I Summary of accounting policies (continued)

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 entity's disposal include the sold entity's carrying amount of goodwill.

Goodwill is allocated to cash-generating units (CGUs) for impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments (note A1).

### (ii) Brand names and customer relationships

Other intangible assets, such as brand names and customer relationships, are acquired as part of business combinations and are recognised initially at fair value. Where they have an indefinite useful life, such as brand names, they are not subject to amortisation but are tested annually for impairment or more frequently if events or changes in circumstances indicate they may be impaired. Key factors taken into account in assessing the useful life of brands are:

- The brands are well established and protected by trademarks across the globe. The trademarks are generally subject to an indefinite number of renewals upon appropriate application; and
- There are currently no legal, technical or commercial obsolescence factors applying to the brands which indicate that the life should be considered limited

### (iii) Other intangible assets - 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 includes all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads.

### (i) Cash and cash equivalents

For statement of cash flows presentation purposes, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments that are readily convertible to known amounts of cash and 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.

### (j) Investments and other financial assets

#### (i) Classification

The group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The group does not have any held-to-maturity investments. The classification depends on the purpose for which the investments

were acquired. Management classifies its investments at initial recognition and re-evaluates this designation each reporting date.

#### *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. Derivatives in this category are current if they are expected to be settled within 12 months. Otherwise, they are classified as non-current.

#### *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 reporting period's end. These are classified as non-current assets. Loans and receivables are included in trade and other receivables (note F3) and other financial assets (note C3) in the balance sheet.

#### *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 other category. These assets are predominantly client monies that are effectively repayable on demand and, therefore, classified as current assets.

### (ii) 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 statement of profit or loss and other comprehensive income. Financial assets are derecognised when the rights to receive cash flows from them 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 other comprehensive income are reclassified in the statement of profit or loss and other comprehensive income as gains and losses from investment securities.

### (iii) Subsequent measurement

Loans and receivables are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or 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 statement of profit or loss and other comprehensive income within

## I Summary of accounting policies (continued)

other income or other expenses in the period in which they arise. Income from financial assets at fair value through profit or loss is recognised in the statement of profit or loss and other comprehensive income as part of revenue from continuing operations when the group's right to receive payments is established.

Changes in the fair values of monetary securities denominated in foreign currencies and classified as available-for-sale are analysed for translation differences resulting from changes in the security's amortised cost and other changes in the security's carrying amount. The translation differences related to changes in the amortised cost are recognised in profit or loss. Other changes in carrying amounts are recognised in equity. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

### (k) Fair value measurement

FLT measures financial instruments at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the group.

An asset or liability's fair value is measured using the assumptions that market participants use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, as described in notes B3, C2 and F7.

### (l) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Ongoing reviews are conducted to determine trade receivables' collectability. Debts known to be uncollectible are written off. An impairment provision is established when there is objective evidence that the group will not be able to collect all amounts due, according to the receivables' original terms. The debtor's significant financial difficulties, probability that the debtor will enter bankruptcy or financial reorganisation

and payment default or delinquency are considered indicators that trade debtors are impaired. The impaired amount 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 impairment amount is recognised in the statement of profit or loss and other comprehensive income in other expenses. When a trade receivable for which an impairment allowance has been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of profit or loss and other comprehensive income.

### (m) Property, plant and equipment

Buildings and other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure directly attributable to the item's acquisition.

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

An asset's carrying amount is impaired immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note I(f)). A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

The reversal is limited so that the asset's carrying amount does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

### (n) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost primarily represents average costs.

### (o) Trade and other payables

These amounts are liabilities for goods and services provided to the group prior to the financial year's end, but not yet paid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months of the reporting date. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### (p) Provisions

Provisions for legal claims and make good obligations are recognised when; the group has a present legal or

## I Summary of accounting policies (continued)

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

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

To measure provisions at present value at the reporting period's end, management estimates the expenditure required to settle the present obligation. 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. Provision increases brought about by the passage of time are recognised as interest expenses.

### (i) Make good provision

The group is required to restore leased premises 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 and restore the leased premises. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the shorter of the lease term or the asset's useful life.

### (q) Employee benefits

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

Liabilities for employees' wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting period's end, are recognised in trade and other payables up to the reporting period's end and represent 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. All other short-term employee benefit obligations are presented as trade and other payables.

#### (ii) 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.

#### (iii) Long service leave

The liability for long service leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in provisions. The liability represents the present value of expected future payments to be made for the services employees provided up to the reporting

period's end. The company considers expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments at the reporting period's end are discounted using market yields on national corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

### (iv) Retirement benefit obligations

The group provides retirement benefits to employees through a defined contribution superannuation fund. Contributions are recognised as expenses as they become payable.

### (v) Termination benefits

Termination benefits may be 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 commits to either terminating a current employee's employment according to a detailed formal plan without the possibility of withdrawal or providing termination benefits following an offer made to encourage voluntary redundancy.

### (r) Borrowings

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 profit or loss over the period of the borrowings using the effective interest method. Fees paid on loan facilities' establishment are recognised as loan transaction costs to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. If there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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 the liability's settlement for at least 12 months after the reporting period's end.

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.



## I Summary of accounting policies (continued)

### (s) Tax

#### (i) Income tax

The income tax expense or revenue for the period is the tax payable or receivable on the current period's taxable income based on each jurisdiction's applicable income tax rate. Adjustments are made for changes in deferred tax assets and liabilities attributable to temporary differences and for unused tax losses.

The current income tax charge is based on tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns in respect of situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the assets' and liabilities' tax bases and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from an asset or liability's initial recognition in a transaction other than a business combination that at the time of the transaction does not affect accounting or taxable profit or loss. Deferred income tax is determined using rates (and laws) that have been enacted or substantively enacted by the end of the reporting period 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 to the extent that 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 controls the timing of the temporary differences' reversals and it is probable that the differences will not reverse in the foreseeable future.

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 tax authority. Current tax assets and tax liabilities are offset when the entity has a legally enforceable right to offset and intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity. In these cases, the tax is also recognised in other comprehensive income or directly in equity.

Companies within the group may be entitled to claim tax incentives (eg. the Research and Development Tax Incentive regime in Australia). This has the effect of

reducing the income tax payable and current tax expense.

#### (ii) Tax consolidation legislation

FLT and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2003.

The head entity, FLT, and the tax consolidated group's controlled entities continue to account for their current and deferred tax amounts. These tax amounts are measured as if each entity continues to be a standalone taxpayer.

In addition to its current and deferred tax amounts, FLT also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from the tax consolidated group's controlled entities.

#### (iii) Nature of the tax sharing arrangement

Members of the tax consolidated group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

#### (iv) Nature of the tax funding agreement

Members of the tax consolidated group have entered into a tax funding agreement. Under the tax funding agreement, the wholly-owned entities fully compensate FLT for any current tax payable assumed and are compensated by FLT for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to FLT under the tax consolidation legislation.

The funding amounts are the amounts recognised in the wholly-owned entities' financial statements. Amounts receivable or payable under the tax funding agreement are due when the head entity's funding advice is received. This advice is issued as soon as practicable after each financial year's end. The head entity may also require payment of interim funding amounts to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables. 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.

### (t) Earnings per share

#### (i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the company's equity holders, 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.

## I Summary of accounting policies (continued)

### (ii) Diluted earnings per share

Diluted earnings per share adjusts 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.

### (u) Contributed equity

Ordinary shares are classified as equity (note D4). Ordinary shares entitle the holder to participate in dividends and the proceeds of the company's wind up in proportion to the number of and amount paid on the shares held.

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

Ordinary shares have no par value and there are no partly paid shares currently on issue.

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

If the entity reacquires its own equity instruments, as the result of a share buy-back for example, 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.

### (v) Dividends

Provision is made by the parent entity for 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.

### (w) Financial guarantee contracts

A financial guarantee contract is recognised as a financial liability when 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 the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments required without the guarantee or the estimated amount payable to a third party for assuming the obligations.

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

### (x) Consumption tax

Revenues, expenses and assets are recognised net of the amount of associated consumption tax, unless the

consumption tax incurred is not recoverable from the taxation authority. In this case, it is recognised as part of the asset acquisition's cost or as part of the expense.

Receivables and payables include consumption taxes receivable or payable. The net amount of consumption tax 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 consumption tax 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 flows.

### (y) New accounting standards and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2015 reporting period. FLT is in the process of determining the impact of these new standards and interpretations.

#### *AASB 9 Financial Instruments*

AASB 9 addresses classification, measurement and derecognition of financial assets and financial liabilities. Since December 2013, it also sets out new rules for hedge accounting. Specifically, the new standard requires expected credit losses to be accounted for from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

The effective date of this standard has been revised from 1 January 2015 to 1 January 2018, however it is available for early adoption. The group has not yet decided when to adopt the standard.

#### *AASB 15 Revenue from Contracts with Customers*

AASB 15 was issued by the AASB in December 2014 and replaces virtually all revenue recognition requirements, including those as set out in AASB 118 *Revenue*. The standard contains a single model that applies to all revenue arising from contracts, unless the contracts are in the scope of other standards (eg. leases). The standard also provides a model for the measurement and recognition of gains and losses on the sale of certain non-financial assets.

The IASB in its July 2015 meeting decided to confirm its proposal to defer the effective date of IFRS 15 (the international equivalent of AASB 15) from 1 January 2017 to 1 January 2018, with early adoption permitted. The amendment to give effect to the new effective date for IFRS 15 is expected to be issued in September 2015. At this time, it is expected that the AASB will make a corresponding amendment to AASB 15, which will mean that it will be applied in the reporting period ending 30 June 2019. FLT does not intend to adopt the standard before its operative date.

There are no other standards that have been issued but are not yet effective and that are expected to have a material financial impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## DIRECTORS' DECLARATION

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In the directors' opinion:

- (a) the financial statements and notes set out on pages 29 to 90 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 2015 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) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note G2 will be able to meet any obligations or liabilities to which they are, or may become, subject to by virtue of the deed of cross guarantee described in note G2.

Note I(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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 directors' resolution.



G.F. Turner  
Director  
BRISBANE  
27 August 2015

# INDEPENDENT AUDITOR'S REPORT

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

### Report on the financial report

We have audited the accompanying financial report of Flight Centre Travel Group Limited, which comprises the consolidated balance sheet as at 30 June 2015, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows, and the consolidated statement of changes in equity for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note I(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial 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 controls. 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.

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

### Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

### Opinion

In our opinion:

- (a) the financial report of Flight Centre Travel Group Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note I(a).



# INDEPENDENT AUDITOR'S REPORT

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## Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### Opinion

In our opinion, the Remuneration Report of Flight Centre Travel Group Limited for the year ended 30 June 2015, complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in black ink that reads 'Ernst &amp; Young' in a cursive style.

Ernst & Young

A handwritten signature in black ink that reads 'Alison de Groot' in a cursive style.

Alison de Groot

Partner

Brisbane

27 August 2015