



Members' Report

**For the Financial Year
ended 30 June 2012**

**Royal Automobile Association
of South Australia Inc**

ABN 90 020 001 807

This year, we have changed the format of the Members' Report. The President and Chairman of the Board will report on RAA governance, strategy, high level financial results, advocacy activities and Board movements. The Group Managing Director will report on RAA operational results and achievements, Group financials and investment results.

THE RAA BOARD OF DIRECTORS

(Top row, l to r): Tony Sharley, Karen Thomas. (Second row, l to r): Rod Payze, Ruth Robinson, Peter Siebels. (Third row, l to r): James Sarah, Wendy Greiner. (Fourth row, l to r): Elizabeth Pery, Sharon Starick, Geoff Rohrshiem. (Bottom row, l to r): David Cross (Vice President), Ray Grigg (President and Chairman of the Board), Ian Stone (Group Managing Director).

Message from the President



The year has been one where the Board, management team and the organisation as a whole has rolled up its sleeves and worked extremely hard to deliver key projects and results. The Group total comprehensive income was \$11.9m, \$600,000 above budget. This is extremely pleasing as it contributed toward delivering our strategic goal to return membership back to operating surplus by 2012.

Once again we met our goals in the delivery of services and continued to grow our 'More For Members' program, giving back almost \$13m of benefits to our members. This result is a 14 per cent increase on the previous financial year and again reaffirms RAA's commitment to give back value to its members.

Over the course of the year almost 50,000 members joined RAA and we achieved a retention rate of over 90 per cent.

These tremendous results would not have been possible without the dedication, skills and willingness of

RAA employees. On behalf of the Board, I thank them all. They are at the heart of this organisation and are 100 per cent committed to providing members with the best RAA experience possible.

Our annual Board strategic planning day brought our Board and Management together to focus on the future needs of our members. As part of this RAA's Vision, Mission and Strategic intent were reviewed to ensure they clearly summarised our purpose and future direction for the benefit of employees, members and stakeholders. As a result, RAA now has a Mission and Vision Statement, and Strategic Intent, which better reflects the RAA of today and where we aspire to be:

Mission and Vision – *Serve our members.*

Strategic Intent – *Invest in providing a range of trusted services that help keep our employees and our members safe, secure and mobile.*

While RAA has always existed to serve our members, the inclusion of 'safe, secure and mobile' shows the diversity of our

business beyond our core Road Service. The inclusion of 'mobile' reflects the broadening of our focus from the motor car to include other ways our members want to get from A to B, such as cycling, walking, public transport and mobility scooters.

Internally, a clear Mission and Strategic Intent provides all employees with a common goal, purpose and direction so all stay focussed on what's important to the organisation.

Although RAA continued to have a strong voice in the community, advocating on a range of subjects, our most effective work was carried out behind closed doors.

During the year, we prepared a range of submissions to both state and federal governments. They included RAA's position on changes to the Graduated Licensing Scheme, Compulsory Third Party Insurance, Adelaide City Council's Integrated Movement Strategy and fuel pricing transparency. Successes included the halving of speeding fines for offences

under nine kilometres over the posted speed limit, working with the government on the 10 year strategy for road safety in South Australia, as well as advocating for funding at a federal level for key road infrastructure.

Our Gold 50 member appreciation events, held to acknowledge the 17,000 plus members who have been with RAA for 50 years or more, continued to be well received. So far almost 6,000 members have been invited to a Gold 50 event in their local area with more than 3,500 members attending.

I thank the RAA Board of Directors for their constant dedication, with a special mention of Leon Holmes who stepped down from the Board in May. As a past President and Chairman of the Board, Leon has made a significant contribution to the strengthening of the organisation. This year Leon was presented with an Order of Australia Award, a recognition he is truly worthy of receiving.

Finally, I welcome Tony Sharley to the RAA Board. Tony has 30 years

experience working in natural resource management and tourism with a passion for protecting one of our greatest natural resources – the River Murray. As manager of Banrock Station for ten years he won numerous state and national tourism and environmental awards, including the Prime Minister's Award for Business Leadership in the Environment.

I look forward to continuing to work with my fellow Board members, stakeholders and employees to ensure RAA delivers the high level service our members expect and deserve.

Ray Grigg
President and Chairman of the Board

Message from the Group Managing Director



RAA demonstrated over the course of the year what we do best. We were there for our members 24 hours a day, seven days a week, delivering services in line with members' expectations.

I am pleased to report that throughout the year we maintained our high standard of service delivery. 94 per cent of metropolitan breakdowns were attended within one hour, with an average waiting time of less than 30 minutes. This is in line with not only Australian, but world best practice.

RAA Road Service attended 316,787 vehicle breakdowns, with patrols fixing 88 per cent of vehicles on the roadside. On top of that result, more than 85 per cent of the one million calls to our call centre were answered within 30 seconds. Our 78 country contractors attended to almost 82,000 vehicle breakdowns throughout regional South Australia and Broken Hill.

Our Technical and Automotive service sold more than 58,500 RAA batteries through our patrols, contractors and RAA Battery Service Centre and Approved Repairer network. To make sure you didn't buy a lemon, our Motoring Services team undertook nearly 7,000 vehicle inspections.

RAA Insurance was proud to be awarded Small/Medium Australian General Insurance Company of the Year at the Australian Insurance Industry 2012 Awards. We were particularly proud to win this accolade given the quality of the two other nationally focussed finalists, Westpac and CommInsure. This Award recognises our efforts in achieving exceptional growth of our insurance business, without compromising RAA's commitment to providing industry leading levels of customer service. In February of this year Choice magazine ranked RAA Insurance as number one in the country

for customer satisfaction in relation to car insurance. On 1 July, our Insurance business celebrated 25 years of service to the South Australian community, demonstrating our longevity and strength in the market. RAA Insurance reported a profit 14 per cent above budget in a very competitive market and travel insurance also experienced strong growth. Our private client travel services also continued to be popular with members.

The organisation recorded continued growth in our retail shops, driven to a great extent by mobility scooter sales – an area in which we are determined to deliver exceptional customer service and expertise in South Australia.

Our security business also recorded strong growth through small acquisitions and partnerships with retirement villages. Over the past few years, we have grown from 8,000 to 20,000 monitored lines. With other opportunities present in the

market place, this part of our business is expected to keep growing.

Not only has a completely new computer system for our Insurance business been successfully embedded on time and within budget, we also began the large task of bringing our whole membership database of almost 600,000 members onto the same platform.

We completed our strategy to take the volatility out of our investment income, by having value driven investment managers who seek capital preservation and by retaining 50 per cent of the Association portfolio in cash. We have also reduced risks within the insurance business in regards to investments by moving all investment into cash, or cash equivalents.

Our net assets now stand at \$169.7m and we recorded a profit after tax of \$11.4m for the financial year.

This was achieved with an increase in group revenue from \$193.5m to \$208.9m, which reflects an increase in sales of products and services across the Group.

All in all, it was a very good above budget year against a back drop of economic uncertainty and declining consumer confidence. I echo the sentiments of the President and acknowledge that this could not have been achieved without the efforts of management and staff.

Ian Stone
Group Managing Director

DIRECTORS

The names and particulars of Directors of the Royal Automobile Association of South Australia Inc (RAA) during the financial year are disclosed herein.

DIRECTORS' MEETINGS

The following table sets out the number of Directors' meetings (including meetings of Committees of Directors) held during the financial year and the number of meetings attended by each Director, while he/she was a Director or Committee Member.

Directors	Board of Directors		Governance & Nominations Committee*		Audit, Risk & Compliance Committee		Investment Committee		Remuneration Committee		Public Policy Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
RG Grigg	10	10	6	6	6	5	5	5	2	2	5	5
DA Cross	10	10	1	1	6	6					5	5
WS Greiner	10	9									5	4
LC Holmes (i)	9	9	2	2			4	4	2	2		
RJ Payze	10	9					5	5				
ED Perry	10	10	1	1	6	5			2	2		
RN Robinson	10	10	6	6							5	4
GR Rohrsheim	10	8	3	3								
JE Sarah	10	10	1	1	6	6	1	1				
A Sharley (ii)	1	1										
PR Siebels	10	9					5	3				
SR Starick	10	10	5	5								
KN Thomas	10	9					1	1				
IH Stone	10	10	6	6	6	6	5	5	2	2	5	5

*Members do not attend meetings of this Committee at which Board election matters are discussed if they are eligible for re-election at the AGM.
(i) Resigned 31 May 2012. (ii) Appointed 1 June 2012.

BOARD COMMITTEES

There were five sub-committees of the Board operating during the year. Each operates under a Charter approved by the Board. Their primary functions are as follows;

Governance and Nominations Committee

The Governance and Nominations Committee is responsible for ensuring RAA's Corporate Governance Framework practices and procedures are relevant and appropriate. The Committee ensures the Board and its committees operate effectively and efficiently and is also responsible for the administration of the Board election process.

Audit, Risk and Compliance

The Audit, Risk and Compliance Committee is responsible for reviewing and reporting to the Board on internal and external audit performance, financial policies, statements and transactions, taxation, internal control and risk management.

Investment Committee

The Investment Committee reviews the investments of RAA in line with the Investment Policy set and agreed by the Board.

Remuneration Committee

The Remuneration Committee reviews the remuneration of Non-Executive Directors, the Managing Director and Senior Executives.

Public Policy Committee

The Public Policy Committee is responsible for assisting the Board in ensuring that RAA Public Policies are relevant and appropriate. The Committee meets as required with membership being determined based on the matter being considered.

REMUNERATION REPORT

The Remuneration Committee reviews the remuneration packages of all Directors and Senior Executives on an annual basis and makes recommendations to the Board. Remuneration packages are reviewed with regard to performance and other relevant factors in order to retain and attract executives of sufficient calibre to facilitate effective management of RAA. The Remuneration Committee seeks the advice of external advisers on remuneration packages that reflect the market.

Remuneration packages for the Managing Director and Senior Executives contain the following:

- Salary
- Benefits – including the provision of motor vehicles, fringe benefits tax and superannuation; and
- At Risk Component – performance-based payment dependent on the achievement of agreed targets.

For Non-Executive Directors, the Constitution of RAA specifies that the aggregate remuneration shall be determined from time to time by a General Meeting. An amount not exceeding the amount determined is then divided between the Directors as agreed. The latest determination was at the Annual General Meeting held on 22 November 2010 when members approved an aggregate remuneration up to \$450,000 per year.

The Non-Executive Directors' remuneration during the financial year is set out below.

	Short Term Benefits Salary Fees	Post Employment Benefits Superannuation	Total
Specified Directors	\$	\$	\$
DA Cross	24,987	16,419	41,405
WS Greiner	2,118	27,903	30,021
RG Grigg	62,108	-	62,108
LC Holmes (i)	-	27,712	27,712
RJ Payze	-	32,521	32,521
ED Perry	-	30,021	30,021
RN Robinson	27,542	2,479	30,021
GR Rohrsheim	27,542	2,479	30,021
JE Sarah	27,542	2,479	30,021
A Sharley (ii)	2,420	200	2,621
PR Siebels	27,542	2,479	30,021
SR Starick	19,069	10,952	30,021
KN Thomas	27,542	2,691	30,233
Total	248,412	158,334	406,746

(i) Resigned 31 May 2012 (ii) Appointed 1 June 2012

PRINCIPAL ACTIVITIES

The principal activities of the Group in the course of the financial year were the provision of motoring, insurance, travel and secure services to members.

The audited financial report of the Group for the financial year ended 30 June 2012 is available electronically on RAA's website (www.raa.com.au) or by request.



RAA's SENIOR EXECUTIVES (left to right): Dominic Jacob, David McGown, Penelope Gale, Tom Griffiths, Doug Parr (appointed July 2012), Ian Stone (front), Malcolm Butcher, Peter Hurcombe, Mike Walters and David Russell.

The following persons also had authority and responsibility for planning, directing and controlling the activities of RAA and its controlled subsidiaries (the Group), directly or indirectly, during the financial year;

- IH Stone Group Managing Director
- D Russell Insurance Chief Executive
- D McGown Group Chief Financial Officer
- P Hurcombe General Manager Strategy Risk and Investments
- T Griffiths General Manager Sales and Marketing
- D Jacob General Manager Automotive Services
- M Butcher General Manager Human Resources
- M Walters General Manager Information Services
- P Gale General Manager Public Affairs
- A Thompson General Manager Commercial Business

The aggregate compensation paid and provided for the Senior Executives during the financial year is set out below:

	2012 \$	2011 \$
Short-term employee benefits	2,297,740	2,312,334
Long-term employee benefits	75,841	70,220
Post-employment benefits	264,548	199,349
Termination benefits	-	12,243
	2,638,129	2,594,146

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2012

	Consolidated 2012 \$'000	Consolidated 2011 \$'000
Continuing operations		
Revenue – Association	84,176	78,661
Revenue – Insurance	117,748	108,399
Other income	6,957	6,208
Share of net profits of an associate	66	258
Total income	208,947	193,526
Expenses		
Employee benefits	(59,900)	(53,938)
Payments to contractors for roadside assistance	(13,816)	(13,532)
Depreciation and amortisation	(5,255)	(6,226)
Finance costs	(1,300)	(1,770)
Claims expense	(77,662)	(68,603)
Other expenses	(35,235)	(35,005)
Total expenses	(193,168)	(179,074)
Operating profit/(loss) from continuing operations before tax	15,779	14,452
Income tax benefit/(expense)	(4,379)	(1,996)
Operating profit/(loss) from continuing operations after tax	11,400	12,456
Net profit/ (loss) after tax for the period	11,400	12,456
Other comprehensive income		
Actuarial gain/(loss) on defined benefit plan	(313)	(83)
Fair value adjustments relating to land and buildings	–	2,520
Net fair value gains on financial assets	880	136
Income tax on items of other comprehensive income	(61)	(834)
Other comprehensive income for the year net of tax	506	1,739
Total comprehensive income for the year net of tax	11,906	14,195

Discussion and analysis of the Statement of Comprehensive Income

Operating profit before tax for the year is \$15.8m, compared to \$14.5m in 2010–11, an increase of \$1.3m.

Total comprehensive income for the year is \$11.9m, which is comprised of operating profit after tax and other comprehensive income, as compared to \$14.2m in 2010–11. This reduction of \$2.3m is primarily a result of increased income tax expense for the year as the Group has exhausted prior years' tax losses and now moves to a tax paying position.

Revenue of \$201.9m has exceeded the \$200m barrier and increased by \$14.8m compared to \$187.1m in 2010–11. RAA Insurance had a great year contributing a \$9.3m increase in Net Earned Premium off the back of its highest underwriting result on record (10% above prior year). Road Service Membership also increased during the year and contributed an additional \$3.2m from 2010–11 results.

Total expenses increased by \$14.1m from \$179.1m to \$193.2m. The four major expenses of the Group comprise insurance claims costs, employee expenses, roadside service contract charges and depreciation and amortisation. Insurance claims costs of \$77.7m increased by \$9.1m, which is in line with the increase in Net Earned Premium. Employee expenses increased by \$6m, reflecting annual pay reviews, additional project salary costs and an increase in staff from 712 to 736 full time equivalents required to support growth across the Group. Payments to contractors for roadside assistance of \$13.8m increased marginally by 2 per cent from 2010–11, reflecting fewer job call outs for the year. Depreciation and amortisation expenses of \$5.3m decreased for the year as amortisation charges related to the acquisition of RAA Insurance (in 2010) reduced.

STATEMENT OF FINANCIAL POSITION
As at 30 June 2012

	Consolidated 2012 \$'000	Consolidated 2011 \$'000
Current Assets		
Cash and cash equivalents	17,469	19,919
Trade and other receivables	55,851	48,683
Inventories	2,372	1,850
Deposits in trust account	289	393
Other current assets	1,260	1,205
Financial assets	121,759	104,445
Deferred acquisition costs	3,162	2,892
Total Current Assets	202,162	179,387
Non-current Assets		
Trade and other receivables	1,551	1,054
Pension assets	588	919
Investments in associates	3,537	3,560
Property, plant and equipment	52,112	54,572
Intangible assets	34,137	22,407
Goodwill	58,041	58,041
Deferred tax asset	4,033	7,405
Total Non-Current Assets	153,999	147,958
Total Assets	356,161	327,345
Current Liabilities		
Trade and other payables	11,489	9,808
Unearned income	97,026	88,850
Interest bearing loans and borrowings	14,295	5,000
Deposits in trust account	289	393
Provisions	9,834	8,611
Current tax liability	2,979	–
Derivative financial instruments	216	210
Outstanding claims liability	29,657	25,278
Total Current Liabilities	165,785	138,150
Non-Current Liabilities		
Interest bearing loans and borrowings	7,705	16,500
Provisions	1,323	1,404
Deferred tax liability	11,165	13,058
Outstanding claims liability	478	434
Total Non-Current Liabilities	20,671	31,396
Total Liabilities	186,456	169,546
Net Assets	169,705	157,799
Equity		
Retained earnings	119,299	108,081
Reserves	50,406	49,718
Total Equity	169,705	157,799

Discussion and analysis of the Statement of Financial Position

The value of total equity as at 30 June 2012 is \$169.7m, compared to \$157.8m at 30 June 2011. This increase of \$11.9m is a result of the operating profit after tax of \$11.4m plus other comprehensive income of \$500,000.

Total assets of the Group increased by \$28.8m to \$356.2m. This increase was largely driven by a \$17.3m additional investment in financial assets to \$121.8m and an increase in intangible assets of \$11.7m due to implementation of the new insurance system.

Total liabilities of the Group increased by \$16.9m to \$186.5m, partly due to an increase in unearned income, which relates to growth in both insurance and the road service businesses of \$8.1m. In addition we recognised a \$4.4m increase in outstanding claims liability as a result of the growing insurance business and a \$2.9m tax liability for the Group as it moved to a tax payable position.

STATEMENT OF CASH FLOWS
For the year ended 30 June 2012

	Consolidated 2012 \$'000	Consolidated 2011 \$'000
Cash flows from operating activities		
Receipts from members and customers (inc.GST)	271,918	262,947
Payments to suppliers and employees (inc.GST)	(250,754)	(245,713)
Interest paid	(1,300)	(1,770)
Interest received	3,272	4,224
Dividends received	3,393	1,712
Rental income received	114	161
Income tax paid	-	(2,129)
Net cash from operating activities	26,643	19,432
Cash flows from investing activities		
Proceeds from sale of fixed assets and intangibles	598	500
Proceeds from the sale of investments	87,768	75,998
Dividends received from associates	89	-
Purchase of fixed assets and intangibles	(14,900)	(8,347)
Purchase of financial assets	(103,148)	(87,106)
Acquisition of shares in associate	-	(973)
Net cash used in investing activities	(29,593)	(19,928)
Cash flows from financing activities		
Proceeds from borrowings	7,500	2,500
Repayment of borrowings	(7,000)	(6,000)
Net cash from/(used in) financing activities	500	(3,500)
Net increase/(decrease) in cash	(2,450)	(3,996)
Cash and cash equivalents at beginning of the year	19,919	23,915
Cash and cash equivalents at end of the year	17,469	19,919

Discussion and analysis of the Statement of Cash Flows

Cash flow growth continued with both the road service and insurance businesses providing strong cash flows from operating activities. Total cash operating inflows increased to \$278.7m and after meeting operating outflows, the net cash flows from the Group's operating activities increased by \$7.2m to \$26.6m.

Net cash used in investing activities increased during the year due to the purchase of additional investment portfolio financial assets, fixed assets and intangible assets, offset by proceeds from sales.

Net cash from financing activities was \$500,000. During the year \$7m of repayments were made on the loan drawn to fund the purchase of RAA Insurance. Offsetting this is the remaining drawdown of \$7.5m from a \$10m facility to assist in funding the new insurance system which was completed by 30 June 2012.

The closing cash balance for the Group was \$17.5m.