

Financial Report

For the financial year ended 30 June 2010



**Royal Automobile Association
of South Australia Inc.**

ABN 90 020 001 807

The logo for the Royal Automobile Association (RAA) of South Australia. It features three parallel yellow diagonal lines above the letters "RAA" in a bold, black, sans-serif font.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2010

	Note	Consolidated 2010 \$'000	RAA of SA 2009 \$'000
Continuing operations			
Revenue	3	125,883	87,030
Unrealised gain on fair value adjustment of equity investment	27	34,473	-
Share of net profits of an associate	12	3,339	2,428
Total Revenue		163,695	89,458
Expenses			
Employee benefits		(45,677)	(44,152)
Payments to contractors for roadside assistance		(13,642)	(12,316)
Depreciation and amortisation	4 a)	(6,215)	(3,959)
Other expenses	4 b)	(50,540)	(34,843)
Total Expenses		(116,074)	(95,270)
Operating profit / (loss) from continuing operations before income tax		47,621	(5,812)
Income tax benefit / (expense)	5 a)	(1,609)	2,763
Operating profit / (loss) from continuing operations after tax		46,012	(3,049)
Net profit / (loss) after tax for the period		46,012	(3,049)
Other comprehensive income			
Prior year earnings equity accounting adjustment		-	2,652
Actuarial gain / (loss) on defined benefit plan		72	(1,804)
Fair value adjustments relating to disposed assets		(922)	(168)
Net fair value gains on financial assets		14	-
Income tax on items of other comprehensive income	5 c)	211	(204)
Other comprehensive income for the period net of tax		(625)	476
Total comprehensive income		45,387	(2,573)
Transfer of unrealised fair value adjustment of equity investment		(34,473)	-
Total income for the period attributable to Members		10,914	(2,573)

The Statement of Comprehensive Income is to be read in conjunction with the accompanying Notes to the Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	Note	Consolidated 2010 \$'000	RAA of SA 2009 \$'000
Current Assets			
Cash and cash equivalents	6	23,915	6,910
Trade and other receivables	7	40,978	11,143
Inventories	8	1,484	1,281
Deposits in trust account	9	708	455
Other current assets	10	1,216	872
Financial assets	11	91,888	48,235
Deferred acquisition costs	22	2,635	-
Total Current Assets		162,824	68,896
Non-Current Assets			
Other receivables	7	984	-
Financial assets	11	1,001	960
Investments in associates	12	2,329	16,332
Property, plant and equipment	13	48,459	51,220
Intangible Assets	14	23,778	3,127
Goodwill	15	58,201	-
Deferred tax asset	5 c)	10,001	6,250
Total Non-Current Assets		144,753	77,889
Total Assets		307,577	146,785
Current Liabilities			
Trade and other payables	16	10,488	10,866
Unearned income	17	81,104	23,446
Interest bearing loans and borrowings	18	5,000	-
Deposits in trust account	9	708	455
Provisions	19	7,719	4,087
Current tax liability		2,172	-
Outstanding claims liability	22	22,156	-
Total Current Liabilities		129,347	38,854
Non-Current Liabilities			
Interest bearing loans and borrowings	18	20,000	-
Provisions	19	1,249	3,225
Deferred tax liability	5 c)	12,942	6,489
Outstanding claims liability	22	435	-
Total Non-Current Liabilities		34,626	9,714
Total Liabilities		163,973	48,568
Net Assets		143,604	98,217
Equity			
Retained earnings	20	95,683	84,094
Reserves	21	47,921	14,123
Total Equity		143,604	98,217

The Statement of Financial Position is to be read in conjunction with the accompanying Notes to the Financial Statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2010

	Consolidated		
	Reserves	Retained Earnings	Total
	\$'000	\$'000	\$'000
At 1 July 2009	14,123	84,094	98,217
Profit for the period	-	46,012	46,012
Other comprehensive income	<u>(675)</u>	<u>50</u>	<u>(625)</u>
Total comprehensive income	<u>(675)</u>	<u>46,062</u>	<u>45,387</u>
At 30 June 2010	<u>13,448</u>	<u>130,156</u>	<u>143,604</u>
Transfer of gain on acquisition of RAAI	<u>34,473</u>	<u>(34,473)</u>	<u>-</u>
At 30 June 2010 net of transfer	<u>47,921</u>	<u>95,683</u>	<u>143,604</u>
		RAA of SA	
	Reserves	Retained Earnings	Total
	\$'000	\$'000	\$'000
At 1 July 2008	15,257	85,534	100,791
Profit for the period	-	(3,049)	(3,049)
Other comprehensive income	<u>(1,134)</u>	<u>1,609</u>	<u>475</u>
Total comprehensive income	<u>(1,134)</u>	<u>(1,440)</u>	<u>(2,574)</u>
At 30 June 2009	<u>14,123</u>	<u>84,094</u>	<u>98,217</u>

The Statement of Changes in Equity is to be read in conjunction with the accompanying Notes to the Financial Statements.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2010

	Note	Consolidated 2010 \$'000	RAA of SA 2009 \$'000
Cash flows from operating activities			
Receipts from members and customers (inclusive of GST)		165,884	131,191
Payments to suppliers and employees (inclusive of GST)		(155,078)	(128,799)
Interest received		653	754
Dividends received		306	465
Rental income received		439	297
Income tax paid		(163)	-
Net cash from operating activities	23	12,041	3,908
Cash flows from investing activities			
Proceeds from sale of fixed assets and intangibles		5,506	3,031
Proceeds from the sale of investments		54,665	-
Proceeds from held-to-maturity investments		1,000	-
Dividends received		1,315	-
Purchase of fixed assets and intangibles		(5,734)	(3,656)
Purchase of financial assets		(30,631)	-
Purchase of held-to-maturity-investments		-	(1,000)
Acquisition of subsidiary	27	(46,157)	-
Net cash used in investing activities		(20,036)	(1,625)
Cash flows from financing activities			
Proceeds from borrowings		25,000	-
Net cash used in financing activities		25,000	-
Net increase / (decrease) in cash		17,005	2,283
Cash and cash equivalents at beginning of the year		6,910	4,627
Cash and cash equivalents at the end of the year	6	23,915	6,910

The Statement of Cash Flows is to be read in conjunction with the accompanying Notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report of the Royal Automobile Association of South Australia Inc (the Association) for the year ended 30 June 2010 was authorised for issue in accordance with a resolution by the directors on 27 September 2010.

The Association is an incorporated association domiciled in Australia. The address of the Association's registered office is 101 Richmond Road, Mile End, South Australia, 5031.

(a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the *Associations Incorporation Act South Australia 1985*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial report has been prepared on the basis of historical cost, except for land and buildings, derivative financial instruments and available-for-sale financial assets that have been measured at fair value. Cost is based on the fair values of the consideration given in exchange for assets.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars [\$'000], unless otherwise stated. Where appropriate, amounts shown for prior periods have been reclassified to facilitate comparison.

The significant accounting policies adopted are stated in order to assist in a general understanding of the financial report. These policies have been consistently applied, unless otherwise stated.

Accounting policies are applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

(b) Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the Association (the Parent) as at 30 June 2010 and the results of all controlled entities for the year then ended (the Group). On 28 February 2010 the Association gained 100% economic interest in the remaining shares in RAA Insurance Holdings.

Subsidiaries are all those entities over which the Group has control with the power to govern the financial and operating policies to obtain benefits from their activities. The existence and effect of potential voting rights are considered when assessing whether the Group has control. Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intragroup transactions have been eliminated in full.

Investments in subsidiaries are accounted for in accordance with AASB 3 (refer note 1 (d)) less any impairment charges. Dividends received from the Subsidiary are recorded as a component of other revenues in the separate income statement of the Parent, and do not impact the recorded cost of the investment. The acquisition of the Subsidiary is accounted for using the acquisition method of accounting by recognising at acquisition date, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquire measured at fair value (see note 1(d)). The difference between the above items and the fair value of consideration (including the fair value of any pre-existing investment in the acquire) is goodwill or a discount on acquisition. A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) New accounting standards and interpretation

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2010. These are outlined below.

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets to improve and simplify the approach.	1 January 2013	These amendments are only expected to affect the presentation and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report	1 July 2013
AASB 124 (Revised)	Related Party Disclosures (December 2009)	The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition.	1 January 2011	The amendments will be considered in relation to identifying and classifying related parties	1 July 2011
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	These amendments affect various Standards and result in minor changes for presentation, recognition and measurement purposes.	1 January 2010	These amendments will need to be looked at individually when they are issued as to any impact on the financial report	1 July 2010
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	The revised Standard introduces a number of changes to the classification and measurement of financial assets.	1 January 2013	These amendments are only expected to affect the presentation and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report	1 July 2013
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations.	1 January 2011	These amendments will need to be looked at individually when they are issued as to any impact on the Group's financial report	1 July 2011
AASB 2010-3	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]	Limits the scope of the measurement choices of non-controlling interest at proportionate share of net assets in the event of liquidation. Other components of NCI are measured at fair value.	1 July 2010	These amendments will need to be looked at when they are issued as to any impact on the financial report	1 July 2010
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments.	1 January 2011	These amendments will need to be looked at when they are issued as to any impact on the financial report	1 July 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred and the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial asset and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

(e) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short term deposits with an original maturity of three months or less. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

(f) Trade and other receivables

Trade receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment. Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate. Due to the short term nature of these receivables, the carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables.

(g) Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs to make the sale. Inventories are accounted for on a first in, first out basis.

(h) Investments and other financial assets

Investments and other financial assets within the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are categorised as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Designation is re-evaluated at each financial year end, but there are restrictions on reclassifying to other categories.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Recognition and Derecognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or when the entity transfers substantially all of the risks and rewards of the financial assets. If the entity neither retains nor transfers substantially all of the risks and rewards, it derecognises the asset if it has transferred control of the assets. All financial assets held by the Group at 30 June 2010 are classified as 'financial assets at fair value through profit and loss', 'held-to-maturity investments', 'loans and receivables' or 'available for sale financial assets'.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(h) Investments and other financial assets (continued)***Subsequent measurement**(i) Financial assets at fair value through profit or loss*

Financial assets classified as held for trading are included in the category “financial assets at fair value through profit or loss”. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in profit or loss and the related assets are classified as current assets in the statement of financial position.

(ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

The effective interest rate is revised on the cessation of fair value hedge accounting when a financial asset or liability is measured at amortised cost and the carrying amount has been adjusted as a result of applying fair value hedge accounting.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains or losses are recognised in profit or loss when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non-current.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets, principally equity securities, that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the reporting date. For investments with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis; and option pricing models, making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

(i) Deferred acquisition costs

Acquisition costs incurred in obtaining general insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to earned premium revenue that will be recognised in the Statement of Comprehensive Income in subsequent reporting periods.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Investments in associates

The Group's investments in associates are accounted for using the equity method of accounting in the consolidated financial statements and at cost in the Parent. In the previous financial year there was no consolidated group and as such the investments in associates was accounted for using the equity method of accounting in the Parent. The associates are entities over which the Group has significant influence and that are not subsidiaries. The Group generally deems they have significant influence if they have over 20% of the voting rights.

Under the equity method, investments in the associates are carried in the consolidated Statement of Financial Position at cost plus post-acquisition changes in the Group's share of net assets of the associates. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in associates.

The Group's share of its associates' post-acquisition profits or losses is recognised in the Statement of Comprehensive Income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the Parent's Statement of Comprehensive Income as a component of other income.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables and loans, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

(k) Pensions and other post-employment benefits

The defined benefit pension plan requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in retained earnings. Past service costs are recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight line basis over the average period until the benefits become vested.

The defined benefit asset or liability recognised in the Statement of Financial Position represents the present value of the defined benefit obligation, adjusted for unrecognised past service cost, net of the fair value of the plan assets. Any asset resulting from this calculation is limited to past service costs, plus the present value of available refunds and reductions in future contributions to the plan.

(l) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to the ownership of the leased item, are capitalised at the inception of the lease at the lower of fair value of the leased asset or the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term. Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(m) Property, plant and equipment**

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

Land and buildings are measured at fair value, based on periodic valuations by external independent valuers who apply the International Valuations Standards Committee International Valuation Standards less accumulated depreciation on buildings and less any impairment losses recognised after the date of the revaluation.

Depreciation is calculated on a straight line basis over the estimated useful life of the specific assets. The depreciation rates used for each class of assets are as follows:

- Land - not depreciated
- Buildings - 2%
- Plant and equipment - 2.5-50%
- Motor vehicles - 15%
- Furniture and fittings - 2.5-50%
- Leasehold improvements - 10-50%

The assets residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

Revaluations of land and buildings

Land and buildings are measured on the fair value basis. Fair value is determined on the basis of an independent valuation prepared by external valuation experts, and determined on market based evidence by appraisal, and does not take capital gains tax into account. The fair values are recognised in the financial statements of the Group, and are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings is not materially different from their fair values.

Any revaluation increment is credited to the asset revaluation reserve included in equity, except to the extent that it reverses a revaluation decrement for the same asset previously recognised in profit or loss, in which case the increment is recognised in profit or loss. Any revaluation decrement is recognised in profit or loss, except to the extent that it offsets a previous revaluation increment for the same asset, in which case the decrement is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset. Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the Statement of Comprehensive Income. Upon disposal or derecognition, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Impairment of non-financial assets other than goodwill and indefinite life intangibles

Non-financial assets other than goodwill and indefinite life intangibles are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Group conducts an annual review of asset values to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(o) Goodwill and intangibles

Goodwill

Goodwill acquired in a business combination is initially measured at cost of being the excess of the consideration transferred over the fair value of the acquiree's net identifiable assets acquired and liabilities assumed. If this consideration transferred is lower than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Upon receipt of dividend payments from Subsidiaries, the Parent will assess whether any indicators of impairment of the carrying value of the investment in the Subsidiaries exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units), to which the goodwill relates. The Group performs its impairment testing as at 30 June each year using discounted cash flows under the fair value less costs to sell methodology. Further details on the methodology and assumptions used are outlined in note 15.

When the recoverable amount of the cash-generating unit/s is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (or group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured on the relative values of the operation disposed and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Goodwill and intangibles (continued)

Intangibles

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired (See note 1 (n) for methodology). The amortisation of an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Comprehensive Income.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

(p) Trade and other payables

Trade payables and other payables are carried at amortised cost and due to their short term nature are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(q) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. The Group does not currently hold qualifying assets but, if it did, the borrowing costs directly associated with this asset would be capitalised (including any other associated costs directly attributable to the borrowing and temporary investment income earned on the borrowing).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Provisions and employee benefits

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of time value of money and the risks specific to the liability.

Employee leave benefits

(i) Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

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

Workers' compensation

The Group is a self-insurer for workers' compensation claims. A claims incurred expense and a provision for outstanding claims has been recognised in the financial statements. The provision for outstanding claims has been actuarially assessed by reviewing individual claim files and estimating unnotified claims using statistics based on past experience and trends.

Outstanding claims have been discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the timing of claim payments. Refer to note 29 for contingent liability relating to bank guarantee provided as security for outstanding claims.

(s) Outstanding Claims Liability

The liability for outstanding claims is measured as the central estimate of the present value of the expected future payments for claims incurred at the reporting date under general insurance contracts, with an additional risk margin to allow for the inherent uncertainty in the central estimate. The liability is measured based on advice / valuation of the appointed actuary, Finity.

Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees, and costs that can only be indirectly associated with individual claims, such as claims administration costs.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(t) Revenue recognition**

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when there has been a transfer of risks and rewards to the customer (through the execution of a sales agreement at the time of delivery to the customer), no further work or processing is required, the quantity and quality of the goods has been determined, the price is fixed and generally title has passed. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid.

Rendering of services

Revenue from rendering of services is recognised by reference to the stage of completion of a contract or contracts at reporting date or at the time of completion of the contract and billing to the customer. When the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

The proportion of revenue not earned in the Statement of Comprehensive Income at the reporting date is recognised as a liability in the Statement of Financial Position.

Interest revenue

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Dividends

Revenue is recognised when the Group's right to receive the dividend is established.

Rental revenue

Rental revenue is accounted for on a straight-line basis over the lease term. Contingent rental income is recognised as income in the periods in which it is earned. Lease incentives granted are recognised as an integral part of the total rental income.

(u) Income tax and other taxes

The assessable income of the Group for income tax purposes comprises only certain income deemed to be derived from non-member activities. Conversely, allowable deductions for income tax purposes are limited to certain expenses and statutory deductions.

Income tax on the Statement of Comprehensive Income for the year comprises current and deferred tax. Income tax is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(u) Income tax and other taxes (continued)**

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- When the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable
- Receivables and payables, which are stated with the amount of GST included

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods. Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

(i) *Significant accounting judgements*

Impairment of non-financial assets other than goodwill and indefinite life intangibles

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future product expectations. If an impairment trigger exists the recoverable amount of the asset is determined.

Taxation

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the Statement of Financial Position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investments, are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future. Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, restoration costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the Statement of Financial Position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the Statement of Comprehensive Income.

(ii) *Significant accounting estimates and assumptions*

Valuation of investments

The Group has decided to classify its investments in listed and unlisted securities as "available-for-sale" investments and movements in fair value are recognised directly in equity. The fair value of listed shares has been determined by reference to published price quotations in an active market.

Impairment of goodwill and intangibles with indefinite useful lives

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units, using a value in use discounted cash flow methodology, to which the goodwill and intangibles with indefinite useful lives are allocated. An impairment loss has not been recognised for the 2010 financial year.

	Note	Consolidated 2010 \$'000	RAA of SA 2009 \$'000
3. REVENUE			
Subscriptions and entrance fees		47,828	44,490
Insurance net premium revenue	22	34,215	-
Sales of goods		14,849	13,883
Rendering of services		7,483	8,973
RAA Insurance distribution fee		6,867	9,754
Commission		2,982	3,240
Revenue from sundry income		1,057	796
Advertising revenue from SA Motor		678	715
Rental income		399	407
<i>Other Income</i>			
Interest		653	754
Investment fund distributions / realised gains		8,287	2,632
Net gain on disposal of non-current assets		585	1,386
		125,883	87,030
4. EXPENSES			
(a) Depreciation and amortisation			
Depreciation of property, plant and equipment		3,315	3,548
Amortisation of intangibles		2,900	411
		6,215	3,959
(b) Other expenses			
Bad debts written off, net of recoveries		106	128
Banking and credit card charges		673	611
Building maintenance		636	622
Commission paid to agents		1,296	1,200
Consultants & solicitors fees		701	538
Cost of sales		7,155	6,694
Fleet expenses		1,045	1,058
Interest paid		-	171
Insurance net claims incurred	22	22,623	-
Insurance underwriting expenses	22	997	-
Investment fund expenses		208	491
Investment fund realised losses		-	7,343
Net loss on the market value of managed funds		-	2,093
Office and computer supplies		1,734	1,303
Other expenditure		2,983	1,849
Outward reinsurance premium expense		-	-
Postages and freight		1,280	1,532
Promotional and public issues		2,751	2,803
Rates, insurance and utility expenses		1,422	1,248
Rent paid on operating leases		916	856
SA Motor magazine production costs		1,132	1,249
Staff related costs		1,558	1,672
Telephone charges		1,324	1,382
		50,540	34,843

	Consolidated 2010 \$'000	RAA of SA 2009 \$'000
5. INCOME TAX		
(a) Income tax expense / (benefit)		
Current income tax	1,808	-
Deferred income tax	(24)	(3,352)
Prior year under / (over) provision	(175)	589
	1,609	(2,763)
<i>Deferred income tax expense / (benefit) included in income tax expense comprises:</i>		
Decrease / (increase) in deferred tax charged directly to equity	211	592
Decrease / (increase) in goodwill on business combinations	(3,892)	-
Decrease / (increase) in deferred tax assets	(2,513)	(2,253)
(Decrease) / increase in deferred tax liabilities	5,995	(1,102)
	(199)	(2,763)
(b) Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income and the tax expense calculated per the statutory income tax rate		
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:		
Accounting profit / (loss) before income tax	47,621	(5,812)
Income tax expense / (benefit) at 30% (2009: 30%)	14,286	(1,744)
Net income not assessable due to mutual activities	(667)	(109)
Unrealised gain on fair value adjustment not assessable	(10,342)	-
Expenditure not allowable for income tax purposes	11	4
<i>Assessable income not included</i>		
Equity share of associate's profits	(1,002)	(738)
Investment allowance	(69)	(14)
Other items	(20)	-
Non taxable dividends	(413)	(751)
Prior year over provision	(175)	589
Aggregate income tax expense	1,609	(2,763)
	Consolidated	RAA of SA

	Consolidated 2010 \$'000	RAA of SA 2009 \$'000
5. INCOME TAX (continued)		
(c) Recognised deferred tax assets and liabilities		
<i>(i) Amounts recognised directly in equity</i>		
Aggregate deferred tax arising in the reporting period and not recognised in net profit but directly debited to equity		
Gain on Managed Funds	(4)	-
Actuarial loss on defined benefit superannuation fund	(22)	541
Reversal of previously recognised revaluation	237	51
	<u>211</u>	<u>592</u>
<i>(ii) Amounts recognised directly against goodwill</i>		
Aggregate deferred tax arising in the reporting period and not recognised in net profit but directly in goodwill		
Fair value of intangible assets recognised on consolidation	(4,392)	-
Allocation of reset tax bases on consolidation	500	-
	<u>(3,892)</u>	<u>-</u>
<i>(iii) Non-current assets - Deferred tax assets</i>		
The balance comprises temporary differences attributable to:		
<i>Amounts recognised in profit or loss</i>		
Doubtful debts	2	3
Audit fee payable	5	3
Employee benefits	1,205	980
Unearned income	2,397	434
Outstanding claims	700	-
Owing to other persons	106	-
Financial assets at fair value	392	-
Capital losses	2,288	2,504
Revenue losses	2,906	2,326
Net deferred tax assets	<u>10,001</u>	<u>6,250</u>
<i>Movements</i>		
Opening balance	6,250	3,997
Recognition of RAAI balance on acquisition	1,238	-
Recognised in income	186	2,253
Recognised in equity	-	-
Tax effect on business combinations	2,327	-
Closing balance	<u>10,001</u>	<u>6,250</u>

	Consolidated 2010 \$'000	RAA of SA 2009 \$'000
5. INCOME TAX (continued)		
(c) Recognised deferred tax assets and liabilities (continued)		
<i>(iv) Non-current liabilities - Deferred tax liabilities</i>		
The balance comprises temporary differences attributable to:		
<i>Amounts recognised in profit or loss</i>		
Interest receivable	78	6
Prepaid salaries and wages	21	-
Deferred acquisition costs	889	-
Financial assets at fair value	3,158	289
Intangible assets at fair value	2,639	-
Revaluation of property, plant and equipment	6,157	6,196
	<hr/>	<hr/>
Net deferred tax liabilities	12,942	6,489
	<hr/>	<hr/>
<i>Movements</i>		
Opening balance	6,490	7,591
Recognition of RAAI balance on acquisition	457	-
Recognised in income	(13)	(510)
Recognised in equity	(211)	(592)
Tax effect on business combinations	6,219	-
	<hr/>	<hr/>
Closing balance	12,942	6,489
	<hr/>	<hr/>

(d) Unrecognised temporary differences

At 30 June 2010, there are no unrecognised temporary differences associated with the Group's investments in subsidiaries and associates, as the Group has no liability for additional taxation should unremitted earnings be remitted (2009: \$Nil).

(e) Tax consolidation*Members of the tax consolidated group and the tax sharing arrangement*

The Parent and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2003. The Association is the head entity of the tax consolidated group. Members of the 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.

	Consolidated 2010 \$'000	RAA of SA 2009 \$'000
6. CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	<u>23,915</u>	<u>6,910</u>
7. TRADE AND OTHER RECEIVABLES		
Current		
Trade receivables	35,662	4,171
Allowance for impairment loss (a)	(23)	(28)
Reinsurance and other recoveries	5,339	-
Deferred settlement	-	7,000
	<u>40,978</u>	<u>11,143</u>
Non-Current		
Reinsurance and other recoveries	<u>984</u>	<u>-</u>
	<u>41,962</u>	<u>11,143</u>

(a) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 30-60 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment loss of \$106,000 (2009:\$128,000) has been recognised by the Group in the current year. These amounts have been included in the other expenses item. No individual amount within the impairment allowance is material.

Movements in the provision for impairment loss were as follows:

Balance at the beginning of the financial year	28	30
Charge for year	101	126
Amounts written off (included in other expenses)	<u>(106)</u>	<u>(128)</u>
Balance at the end of the financial year	<u>23</u>	<u>28</u>

At 30 June 2010, the ageing analysis of trade receivables is as follows:

		Total	Current	60-90 days		90-120 days		120+days	
				PDNI*	CI*	PDNI*	CI*	PDNI*	CI*
2010	Consolidated	35,662	35,418	74	-	20	22	128	1
2009	Parent	4,171	3,989	46	-	108	17	-	11

* Past due not impaired (PDNI)

* Considered impaired (CI)

Receivables past due but not impaired are \$222,000 (2009: \$154,000).

	Consolidated 2010 \$'000	RAA of SA 2009 \$'000
8. INVENTORIES		
Finished goods at cost	<u>1,484</u>	<u>1,281</u>
9. DEPOSITS IN TRUST ACCOUNT		
Current Assets		
RAA Travel trust bank balance	<u>708</u>	<u>455</u>
Current Liabilities		
RAA Travel trust liabilities	<u>708</u>	<u>455</u>
Cash balances held in trust accounts are not available for use by the Group. Cash in the RAA Travel trust account represents funds held on behalf of travel clients and payable to travel service providers.		
10. OTHER CURRENT ASSETS		
Prepayments	<u>1,216</u>	<u>872</u>
11. FINANCIAL ASSETS		
Current		
<i>Financial assets at fair value through profit and loss</i>		
Funds under management (i)	60,946	47,061
<i>Available for sale financial assets at fair value</i>		
Funds under management (i)	4,674	-
Shares - Australian unlisted (ii)	174	174
Short-term deposits held for reinvestment	26,094	-
<i>Held to maturity</i>		
Term Deposits (iii)	<u>-</u>	<u>1,000</u>
	<u>91,888</u>	<u>48,235</u>
Non-current		
Surplus - defined benefit superannuation scheme	26 <u>1,001</u>	<u>960</u>

Available for sale investments consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

(i) *Listed shares*

The fair value of listed available for sale investments has been determined directly by reference to published price quotations in an active market. There are no individually material investments.

(ii) *Unlisted shares*

The value of Australian unlisted shares is carried at cost.

(iii) *Term deposits*

Term deposits with a maturity of >3 months have been classified as held to maturity investments in accordance with Note 1.

	Consolidated 2010 \$'000	RAA of SA 2009 \$'000
12. INVESTMENTS IN ASSOCIATES		
<i>Summary of Income</i>		
Club Consortium Pty Ltd	218	119
RAA Insurance Holdings Limited	<u>3,121</u>	<u>2,309</u>
	3,339	2,428
(a) Club Consortium Pty Ltd		
<i>(i) Investment details</i>		
	Principal Activity	Equity Interest
	2010	2009
	Investments	Investments
	25.6%	25.6%
<i>(ii) Movement in the carrying amount of the Group's investment</i>		
	Consolidated 2010 \$'000	RAA of SA 2009 \$'000
Equity accounted investment		
Equity accounted amount of investment at the beginning of the financial year	2,326	2,322
Share of operating profits before income tax	219	119
Share of income tax	(1)	-
Share of dividend	<u>(215)</u>	<u>(115)</u>
Equity accounted amount of investment	<u>2,329</u>	<u>2,326</u>
Carrying amount of Group's investment	<u>2,329</u>	<u>2,326</u>
Summarised financial information		
Current assets	119	106
Current liabilities	(6)	(2)
Non-current assets	9,000	9,000
Non-current liabilities	<u>-</u>	<u>-</u>
Net assets	<u>9,113</u>	<u>9,104</u>
Total revenue	<u>854</u>	<u>465</u>
Net profit after income tax	<u>850</u>	<u>463</u>
Share of net profits of associate accounted for using the equity method	<u>218</u>	<u>119</u>

12. INVESTMENTS IN ASSOCIATES (continued)**(b) RAA Insurance Holdings Ltd***(i) Investment details*

Principal Activity	Equity Interest	
	2010	2009
Personal Lines General Insurer	100.0%	50.0%

On 28 February 2010, the Association gained economic control of RAA Insurance Holdings Ltd and its subsidiaries with the power to govern the financial and operating policies and to obtain ultimate benefits from their activities. At this time, the Association's investment was transferred from an equity accounted investment to a 100% owned subsidiary. Refer to note 27 for further information.

(ii) Movement in the carrying amount of the Group's investment

	Note	Consolidated 2010 \$'000	RAA of SA 2009 \$'000
Equity accounted investment			
Equity accounted amount of investment at the beginning of the financial year		14,006	12,047
Share of operating profits before income tax		4,424	3,239
Share of income tax		(1,303)	(930)
Share of dividend		(1,100)	(350)
Transfer to investment in subsidiary on acquisition of RAAI	27	(16,027)	-
Equity accounted amount of investment		-	14,006
Carrying amount of Group's investment		-	14,006
Summarised financial information			
Current assets		-	99,746
Current liabilities		-	(76,764)
Non-current assets		-	3,362
Non-current liabilities		-	(533)
Net assets		-	25,811
Premium revenue		67,340	89,568
Outward reinsurance premium expense		(2,782)	(3,408)
Net premium revenue		64,558	86,160
Net profit after income tax		6,242	4,617
Share of net profits of associate accounted for using the equity method		3,121	2,309

13. PROPERTY, PLANT AND EQUIPMENT**(a) Reconciliation of carrying amounts at the beginning and end of the period**

	Land and Buildings	Plant, Equipment and Motor Vehicles	Furniture, Fittings and Leasehold	Total
	\$'000	\$'000	\$'000	\$'000
At 1 July 2008				
Cost or fair value	40,367	12,423	16,951	69,741
Accumulated depreciation	(539)	(3,819)	(11,526)	(15,884)
Net book amount	<u>39,828</u>	<u>8,604</u>	<u>5,425</u>	<u>53,857</u>
Year ended 30 June 2009				
Opening net book amount	39,828	8,604	5,425	53,857
Additions	101	1,696	879	2,676
Disposals	(1,246)	(395)	-	(1,641)
Depreciation	(543)	(2,315)	(646)	(3,504)
Net revaluation increment / (decrement)	(168)	-	-	(168)
Closing net book amount	<u>37,972</u>	<u>7,590</u>	<u>5,658</u>	<u>51,220</u>
At 30 June 2009				
Cost or fair value	39,054	13,724	17,830	70,608
Accumulated depreciation	(1,082)	(6,134)	(12,172)	(19,388)
Net book amount	<u>37,972</u>	<u>7,590</u>	<u>5,658</u>	<u>51,220</u>
Year ended 30 June 2010				
Opening net book amount	37,972	7,590	5,658	51,220
Additions on acquisition of RAAI	-	607	29	636
Additions	245	2,832	1,455	4,532
Disposals	(2,159)	(388)	(567)	(3,114)
Transfer out	-	(407)	-	(407)
Depreciation	(509)	(2,285)	(635)	(3,429)
Net revaluation increment / (decrement)	(979)	-	-	(979)
Closing net book amount	<u>34,570</u>	<u>7,949</u>	<u>5,940</u>	<u>48,459</u>
At 30 June 2010				
Cost or fair value	35,940	19,791	18,647	74,378
Accumulated depreciation	(1,370)	(11,842)	(12,707)	(25,919)
Net book amount	<u>34,570</u>	<u>7,949</u>	<u>5,940</u>	<u>48,459</u>

(b) Revaluation of freehold land and freehold buildings

The Group engages McGees National Property Consultants, an accredited independent valuer that uses the International Valuation Standards Committee, International Valuation Standards as a reference, to determine the fair value of its freehold land and buildings. Fair value is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Fair value is determined by direct reference to recent market transactions on arm's length terms for land and buildings comparable in size and location to those held by the Group, and to market based yields for comparable properties. The effective date of the latest revaluation was 30 June 2007.

13. PROPERTY, PLANT AND EQUIPMENT (continued)

(c) Carrying amounts if land and buildings were measured at cost less accumulated depreciation and impairment

	2010		2009	
	Freehold Land \$'000	Freehold Buildings \$'000	Freehold Land \$'000	Freehold Buildings \$'000
Cost value	4,901	12,440	4,849	15,176
Accumulated depreciation	-	(3,139)	-	(2,433)
Net carrying amount	<u>4,901</u>	<u>9,301</u>	<u>4,849</u>	<u>12,743</u>

14. INTANGIBLE ASSETS

(a) Reconciliation of carrying amounts at the beginning and end of the period

	Monitored Security Lines \$'000	Computer Software \$'000	Customer Contracts #	Customer Relationships #	Brand #	Total \$'000
At 1 July 2008						
Cost or fair value	1,369	6,107	-	-	-	7,476
Accumulated amortisation	(411)	(4,464)	-	-	-	(4,875)
Net book amount	<u>958</u>	<u>1,643</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,601</u>
Year ended 30 June 2009						
Opening net book amount	958	1,643	-	-	-	2,601
Additions	-	981	-	-	-	981
Amortisation	-	(455)	-	-	-	(455)
Closing net book amount	<u>958</u>	<u>2,169</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,127</u>
At 30 June 2009						
Cost or fair value	1,369	7,088	-	-	-	8,457
Accumulated amortisation	(411)	(4,919)	-	-	-	(5,330)
Net book amount	<u>958</u>	<u>2,169</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,127</u>
Year ended 30 June 2010						
Opening net book amount	958	2,169	-	-	-	3,127
Additions on acquisition of RAAI	-	-	-	-	-	-
Additions	141	551	1,900	5,000	15,400	22,992
Transfer in	-	559	-	-	-	559
Disposals	-	-	-	-	-	-
Amortisation	-	(680)	(1,270)	(950)	-	(2,900)
Closing net book amount	<u>1,099</u>	<u>2,599</u>	<u>630</u>	<u>4,050</u>	<u>15,400</u>	<u>23,778</u>
At 30 June 2010						
Cost or fair value	1,510	5,274	1,900	5,000	15,400	29,084
Accumulated amortisation	(411)	(2,675)	(1,270)	(950)	-	(5,306)
Net book amount	<u>1,099</u>	<u>2,599</u>	<u>630</u>	<u>4,050</u>	<u>15,400</u>	<u>23,778</u>

Purchased as part of business combinations

14. INTANGIBLE ASSETS (continued)

(b) Description of the Group's intangible assets

(i) Monitored security lines

Monitored security lines are carried at cost less accumulated impairment losses. These intangible assets have been determined to have indefinite useful lives. For the purpose of assessing impairment, Monitored security lines are allocated to the cash generating unit representing the Association. At 30 June 2010 the recoverable amount is considered to be higher than the carrying amount and no impairment has been recognised.

(ii) Computer software

Computer software is carried at cost less accumulated amortisation and accumulated impairment losses. These intangible assets have been assessed as having a finite life and are amortised using the straight line method over a period of 5 years. The amortisation has been recognised in the Statement of Comprehensive Income in the line item "Depreciation and amortisation expense". If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

(iii) Customer contracts

Customer contracts represents the current customers of RAA Insurance Holdings Ltd at acquisition and is carried at cost less accumulated amortisation and accumulated impairment losses. These intangible asset have been assessed as having a finite life of six months based on the average remaining tenure of the contracts and is amortised using the straight line method. The amortisation has been recognised in the Statement of Comprehensive Income in the line item "Depreciation and amortisation expense". If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

(iv) Customer relationships

Customer relationships represents the expected retention of current customers in RAA Insurance Holdings Ltd. These intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. This intangible asset has been assessed as having a finite life and is amortised using the diminishing value method over a period of 10 years. The amortisation has been recognised in the Statement of Comprehensive Income in the line item "Depreciation and amortisation expense". If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

(v) Brand

Brand represents the RAA Insurance brand name and is carried at cost less accumulated impairment losses. This intangible asset has been determined to be an indefinite life asset. For the purpose of assessing impairment, the Brand is allocated to the cash generating unit of the Group. At 30 June 2010 the asset is not considered to be impaired due to the valuation of the asset being current.

(c) Impairment losses recognised

An impairment loss has not been recognised for the 2010 financial year.

15. GOODWILL

(a) Reconciliation of carrying amounts at the beginning and end of the period

	Consolidated 2010 \$'000	RAA of SA 2009 \$'000
Opening net book amount	-	-
Acquisition of RAAI	<u>58,201</u>	<u>-</u>
Closing net book amount	<u>58,201</u>	<u>-</u>

(b) Description of the Group's goodwill

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment (refer to section (d) of this note).

15. GOODWILL (continued)**(c) Impairment losses recognised**

An impairment loss has not been recognised for the 2010 financial year.

(d) Impairment tests for cash generating units containing goodwill

For the purpose of assessing impairment, goodwill is allocated to the cash generating unit of the Group. The recoverable amount of goodwill this financial year has been determined to be equivalent to its carrying value on recognition as it was based on a current market valuation.

	Consolidated 2010 \$'000	RAA of SA 2009 \$'000
16. TRADE AND OTHER PAYABLES		
Current		
Trade payables	3,222	1,789
Security deposit (i)	1,218	1,242
Deferred payment (ii)	66	3,000
Other payables and accruals	<u>5,982</u>	<u>4,835</u>
	<u>10,488</u>	<u>10,865</u>

(i) The Group provides roadside assistance services to Assist Australia Pty Ltd under a Services Agreement. A security deposit received from Assist Australia Pty Ltd secures the performance of the services to be provided under the Services Agreement and Assist Australia Pty Ltd's obligation to pay for those services.

(ii) The Group purchased additional monitored security lines under an agreement that provides for a deferred payment due in December 2010.

17. UNEARNED INCOME

Subscriptions in advance	25,345	23,446
Unearned insurance premiums	<u>55,759</u>	<u>-</u>
	<u>81,104</u>	<u>23,446</u>

18. INTEREST BEARING LOANS AND BORROWINGS**Current**

Bank loan	<u>5,000</u>	<u>-</u>
	<u>5,000</u>	<u>-</u>

Non-Current

Bank loan	<u>20,000</u>	<u>-</u>
	<u>20,000</u>	<u>-</u>

18. INTEREST BEARING LOANS AND BORROWINGS (continued)

(a) The carrying amount of the Group's current and non-current borrowings approximate their fair value. Details regarding interest rate and liquidity risk is disclosed in note 30.

(b) Assets pledged as security for current and non-current interest-bearing liabilities is equivalent to 100% of the net assets of the Association only.

(c) During the current year there were no defaults or breaches on any of the loans.

	Consolidated 2010 \$'000	RAA of SA 2009 \$'000
19. PROVISIONS		
Current		
Employee benefits	7,569	4,001
Workers' compensation	150	86
	7,719	4,087
Non-current		
Employee benefits	1,199	3,095
Workers' compensation	50	130
	1,249	3,225

(a) Movement in provisions

Movement in the workers' compensation provision during the financial year is set out below:

Balance at beginning of financial year	216	249
Reduction arising from net of payments and recoveries	(16)	(33)
Increase resulting from the re-measurement of the estimated future sacrifice	-	-
	200	216

(b) Nature and timing of provisions
(i) Employee Benefits

Refer to note 1 (r) for the relevant accounting policy and a discussion of the significant estimations and assumptions applied in the measurement of employee benefits.

(ii) Workers' Compensation

The provision for workers' compensation represents the present value of a reasonable estimate of the liabilities for claims incurred up to and including 30 June 2010, net of recoveries.

	Consolidated 2010 \$'000	RAA of SA 2009 \$'000
20. RETAINED EARNINGS		
Balance at beginning of the financial year	84,094	85,534
Net profit / (loss) after tax	46,012	(3,049)
Transfer of unrealised gain to reserve	(34,473)	-
Actuarial gains from defined benefit superannuation scheme	50	(1,263)
Transfer from Asset Revaluation Reserve relating to disposed assets	-	1,016
Prior year earnings equity accounting adjustment	-	1,856
	<hr/>	<hr/>
Balance at end of financial year	95,683	84,094

21. RESERVES

	Consolidated			
	Asset Revaluation Reserve	Net Unrealised Gains Reserve	Unrealised Capital Reserve on RAAI Acquisition	Total
	\$'000	\$'000	\$'000	\$'000
At 1 July 2009	14,123	-	-	14,123
Revaluation of land and buildings	(685)	-	-	(685)
Net gains on financial assets	-	10	-	10
Transfer of unrealised gain to reserve	-	-	34,473	34,473
Transfer to retained earnings relating to disposed assets	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2010	13,438	10	34,473	47,921

	RAA of SA			
	Asset Revaluation Reserve	Net Unrealised Gains Reserve	Unrealised Capital Reserve on RAAI Acquisition	Total
	\$'000	\$'000	\$'000	\$'000
At 1 July 2008	15,257	-	-	15,257
Revaluation of land and buildings	(118)	-	-	(118)
Transfer to retained earnings relating to disposed assets	(1,016)	-	-	(1,016)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2009	14,123	-	-	14,123

21. RESERVES (continued)**Nature and purpose of reserves***Asset revaluation reserve*

The asset revaluation reserve is used to record increments and decrements in the fair value of land and buildings to the extent that they offset one another.

Net unrealised gains reserve

The net unrealised gains reserve records movements in the fair value of available-for-sale financial assets.

Unrealised capital reserve on RAAI Acquisition

The unrealised capital reserve on RAAI acquisition is used to recognise the uplift to fair value of the pre-existing investment of the Association on the gaining of control of RAA Insurance Holdings Ltd.

22. INSURANCE DISCLOSURES**(a) Contribution to profit from General Insurance activities**

	Consolidated 2010 \$'000
Net earned premium	
Direct premium revenue	35,675
Fire service and other levies	63
	<hr/>
Total premium revenue	35,738
	<hr/>
Outwards reinsurance premium expense	(1,523)
	<hr/>
Total net earned premium	34,215
	<hr/>
Net incurred claims	
Claims expense	(27,426)
Reinsurance and other recoveries revenue	4,803
	<hr/>
Total net incurred claims	(22,623)
	<hr/>
Underwriting expenses	
Acquisition costs	(606)
Other underwriting expenses	(391)
	<hr/>
Total underwriting expenses	(997)
	<hr/>
Underwriting Result	10,595
	<hr/>
Net investment income / (loss) on technical reserves	662
	<hr/>
Insurance trading result	11,257
	<hr/>
Net investment income / (loss) on shareholders funds	(33)
	<hr/>
Contribution to profit before tax	11,224
	<hr/>

22. INSURANCE DISCLOSURES (continued)
(b) Net incurred claims

Details of net incurred claims are as follows:

Direct Business	Current Year \$'000	Prior Years \$'000	Total \$'000
<i>Gross claims incurred and related expenses</i>			
Undiscounted	26,772	654	27,426
	26,772	654	27,426
<i>Reinsurance and other recoveries</i>			
Undiscounted	(4,533)	(508)	(5,041)
Discount and discount movement	7	231	238
	(4,526)	(277)	(4,803)
Total net claims incurred	22,246	377	22,623

Current period claims relate to risks borne in the current financial year while prior period claims relate to a reassessment of the risks borne in all previous financial years.

(c) Deferred Acquisition Costs

Treatment of deferred acquisition costs incurred in obtaining general insurance contracts is detailed in note 1(i).

	Consolidated 2010 \$'000
Deferred acquisition costs as at 28 February 2010	-
Acquisition costs deferred	5,061
Amortisation charged to income	<u>(2,426)</u>
Deferred acquisition costs as at 30 June 2010	<u>2,635</u>

(d) Outstanding Claims Liability

Measurement of outstanding claims liability is detailed in note 1(s) and part e(i) of this note.

Current	22,156
Non-Current	<u>435</u>
	<u>22,591</u>

(e) Critical Accounting Judgements and Estimates

RAA Insurance makes estimates and judgements in respect of certain key assets and liabilities. Estimates and judgements are continually reviewed and are based on past experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates and judgements are applied are described below.

(i) Estimation of outstanding claims liability

Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance date, including the cost of claims incurred but not yet reported.

22. INSURANCE DISCLOSURES (continued)

The estimated cost of claims includes direct expenses to be incurred in settling claims gross of the expected reinsurance and other recoveries. The Consolidated Entity takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Consolidated Entity, where more information about the claim is generally available. Personal insurance claims are generally reported within a short time frame following the claim event and therefore tend to display low levels of volatility.

In calculating the estimated cost of unpaid claims the Consolidated Entity uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Where historical experience is not sufficient a combination of actual and industry experience is utilised. A prudential margin is added for changes in uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims, including; changes in Consolidated Entity processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods

- changes in the legal environment
- the effects of inflation
- the impact of large losses
- movements in industry benchmarks

Provisions are calculated gross of any reinsurance and other recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions. An estimate of other recoveries is made on past patterns of other recoveries. Both reinsurance and other recoveries are stated at present value. Details of specific actuarial assumptions used in deriving the outstanding claims liability at year end are detailed at section (h) of this note.

(ii) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty risk, credit risk and the time value of money.

(f) Liability adequacy test deficiency

The Liability Adequacy Test (LAT) assesses whether the net earned premium liability less any related intangible assets and deferred acquisition costs is sufficient to cover future claims cost for in-force policies. Future claims costs are calculated as the present value of the expected cash flows relating to future claims, and includes a risk margin to reflect inherent uncertainty in the central estimate for each portfolio of contracts. The test is based on prospective information and so is heavily dependant on assumptions and estimates.

For the purposes of the liability adequacy test there is one portfolio being Personal Insurance. The liability adequacy test has identified a surplus for this portfolio of \$3,595,000 (2009: surplus of \$4,749,000).

As at 30 June 2010 the net central estimate of the present value of expected future cash flows for future claims (Premium Liabilities) was \$39,354,000 (2009: \$36,159,000) and a further \$1,749,000 (2009: \$1,648,000) relating to risk margin has been added when assessing the provision at a 75% probability of sufficiency. The probability of adequacy (POA) adopted in performing the liability adequacy test is set at the 75th percentile compared to the 90th percentile adopted in determining the outstanding claims liabilities.

The POA for outstanding claims liabilities is set at a level that is appropriate and sustainable to cover the claim obligations after having regard to the prevailing market environment and prudent industry practice. Being a test of adequacy, the POA for the liability adequacy test is set to highlight deficiencies in product pricing following an analysis of the profit margins after having regard to regulatory minimum requirements.

22. INSURANCE DISCLOSURES (continued)**(g) General Insurance Risk Management***Objectives in managing risks and policies for mitigating those risks*

In accordance with Prudential Standard GPS 220 Risk Management for General Insurers and GPS 230 Reinsurance Arrangements for General Insurers issued by the Australian Prudential Regulation Authority (APRA), the Board and senior management of RAA Insurance have developed a risk management framework that is designed to ensure that risks that may affect the RAA Insurance's abilities to meet obligations to policy holders are identified, assessed, mitigated and monitored. The RAA Insurance's objective is not to eliminate all risk, but to ensure that risk is recognised and maintained at an acceptable level and at an acceptable cost.

The risk management framework is made up of a series of components which, in total, comprise the overall approach the RAA Insurance has to managing risk. The main components are the Risk Management Strategy (RMS), Risk Profiles and Reinsurance Management Strategy (REMS).

The RMS and REMS aim to ensure that RAA Insurance has in place policies, procedures, processes and controls that effectively identify, assess, mitigate and monitor the key risks that RAA Insurance faces during the course of its operations.

The Board and senior management of RAA Insurance are responsible for ensuring the assets of RAA Insurance are safeguarded from risk, provide shareholders with assurance that their investment is protected from material claims losses and that RAA Insurance is able to meet obligations to policyholders when they fall due.

The Board of RAA Insurance is responsible for reviewing the RMS and REMS annually to ensure adequate frameworks exist to monitor and evaluate circumstances that may impact the RAA Insurance's risk profiles. Annually, the Board of RAA Insurance certifies to APRA that adequate strategies have been put in place to monitor the risks and that systems are in place to ensure compliance with legislative and prudential requirements. The Board of RAA Insurance also certifies to APRA that it is satisfied as to the adequacy and compliance with RMS and REMS.

An integral part of the RAA Insurance's overall RMS is the governance and management of the risks that impact the amount, timing and uncertainty of cash flows from insurance contracts. RAA Insurance has established internal controls to manage risk in the areas of exposure relevant to its business. The risk categories discussed below are:

- strategic and tactical risk
- reinsurance risk
- operational risk
- insurance risk

The RAA Insurance's RMS also recognises the volatility of financial markets and aims to minimise adverse effects on its financial performance. This is considered in Financial Risk (note 30).

Strategic and tactical risk

RAA Insurance considers risk and opportunity simultaneously, with the identification of both internal and external environments leading to actions and projects that form RAA Insurance departmental business plans. Risk is therefore identified as part of the business planning process, during quarterly risk workshops and as an ongoing part of each department's execution of its business plan.

22. INSURANCE DISCLOSURES (continued)

Business planning and risk management are linked to ensure risks arising out of business planning and strategy development are included into, and considered by, the risk management framework, or that significant risks or risks not within tolerance are addressed as part of the business planning and strategy development process of RAA Insurance. Initiatives identified during the business planning and strategy process are noted on the Risk Profiles. Project management includes a process for the identification and management of risks, noting the risks involved with the project and the benefits the project will deliver.

RAA Insurance has determined that its core business will continue to be personal lines insurance offered to South Australian and Broken Hill risks.

Reinsurance risk

The management of reinsurance risk is addressed in the REMS. The REMS is reviewed annually and is approved by the Board of RAA Insurance.

Reinsurance management refers to the selection, monitoring, review and control of reinsurance arrangements – that is where some part of individual or aggregate insurance risks are ceded to other insurers, including from direct writing insurers to reinsurers or other direct writing insurers (cession) as well as from reinsurers to their parent companies or other reinsurers (retrocession). Weaknesses in the controls and management of reinsurance arrangements could result in the inability to meet policyholder liabilities as they fall due and may impair the capital, profitability or liquidity position of RAA Insurance.

The REMS has been developed to ensure that RAA Insurance has in place prudent reinsurance arrangements to provide the necessary security and liquidity to meet its obligations to policyholders and hence provide protection to the assets of RAA Insurance.

Key aspects of RAA Insurance's REMS include:

- The use of a simple reinsurance structure (due to the classes of business underwritten) that facilitates the timely recovery of reinsurance claims;
- The selection of adequate reinsurance programs for each product line to limit exposure to large single claims and catastrophes. In relation to catastrophic losses, actuarial modelling is used to calculate the Probable Maximum Loss (PML) with a return period of 1 in 250 years;
- Spreading the reinsurance program across major reinsurance markets to avoid over dependency on any one market;
- Evaluating reinsurers based upon creditworthiness, the basis of coverage, security, price and a genuine willingness to pay claims;
- Matching the skills, knowledge and experience of each reinsurance counterparty to the type of business ceded;
- Fostering long term relationships with reinsurers to encourage active assistance in establishing the correct price of risk transfer over a period of time; and
- The continuous evaluation of the benefit of multi-year contracts to achieve long term stability to pricing, leading to reduced underwriting expenses.

RAA Insurance has cover for a return period of 1 in 500 years (as modelled by our reinsurance brokers).

Operational risk

Operational risk is the risk of loss resulting from system weaknesses or failure, human error or external events that does not relate to insurance or financial risks.

RAA Insurance manages operational risk by recruiting and retaining high quality employees who have the requisite skills and experience for their positions. Each employee is also given an authority level based on their expertise and position description, with compliance to their authorities actively monitored. Other methods to manage operational risk include segregation of duties, reconciliation procedures and access controls which are regularly reviewed.

22. INSURANCE DISCLOSURES (continued)

Insurance risk

Insurance risk refers to the inherent risk in any insurance contract that the insured event may occur and the uncertainty of the amount of the resulting claim. RAA Insurance manages this risk through the RMS, REMS (as discussed in Reinsurance risk) and the terms and conditions of its insurance contracts. RAA Insurance addresses the concentration of insurance risk by maintaining a balanced diversified portfolio of two main classes of business; discussed below.

Key aspects of the RMS that aim to mitigate risk include:

- Underwriting operations are managed in accordance with documented underwriting guidelines, with regular quality assessments and monitoring of operations conducted.
- Claims operations are managed in accordance with documented claims guidelines, with regular assessment and monitoring of operations conducted.
- Actuarial models utilise information from the management information system to calculate premiums and monitor claims patterns. Past experience and statistical methods form part of this process.

Terms and conditions of insurance contracts

RAA Insurance has adopted a standard insurance contract for each class of insurance policy. The terms and conditions of these insurance contracts are in accordance with legislative requirements as stipulated in the Insurance Contracts Act. These standard contracts are used for all insurance policies entered into between RAA Insurance and its policyholders. No special terms are entered into with any policyholder that has a material impact on the financial statements.

Concentration risk

RAA Insurance is a domestic insurer that only operates in South Australia and Broken Hill. As a result, a concentration risk potentially exists due to the nature and location of the business. As part of the Risk Profiles, RAA Insurance considers and reviews these risks to ensure they are adequately addressed and managed.

This risk is considered and noted in RAA Insurance's risk appetite. RAA Insurance has identified a potential asset concentration risk, related to geographic location, which could impact RAA Insurance should there be a catastrophe and have mitigated this risk through its reinsurance arrangements.

RAA Insurance's exposure to concentration of insurance risk is mitigated by maintaining a diversified portfolio of two main classes of business (Motor - comprehensive and third party, and Home - building and contents, damage and liability). Specific provisions for monitoring identified key concentrations are set out below.

<u>Risk</u>	<u>Source of concentration</u>	<u>Risk management measures</u>
Natural catastrophes	Risk's concentrated in regions that are subject to; <ul style="list-style-type: none"> - Earthquake - Bushfire - Flood 	Underwriting strategies requires individual risk premiums to be differentiated in order to identify the higher loss value. The Consolidated Entity has modelled aggregated risk by postcode using commercially available catastrophe models. Based on the probable maximum loss per the models, the Consolidated Entity purchases catastrophe reinsurance cover to limit exposure to any single event.

The largest potential loss faced by RAA Insurance is an earthquake with a return period of 1 in 250 years. In relation to the lower return periods, the catastrophic event to generate the greatest loss is bushfire induced damage in ICA Zone 28 of Adelaide Hills.

22. INSURANCE DISCLOSURES (continued)

(h) Actuarial assumptions and methods

RAA Insurance writes Personal Insurance which includes the following classes of business; Motor Comprehensive, Motor Third Party, Home (Building and Contents, Damage and Liability) and Boat. The classes are generally short-tail in nature, meaning that claims are typically settled within one year of being reported. The process for determining the value of outstanding claims liabilities in respect of these classes is described below.

Personal Insurance (not including personal injury liability)

For these classes of business, there is not a significant delay between the occurrence of the claim and the claim being reported to, and settled by, RAA Insurance. Therefore, due to the short-tail nature of these classes, no allowance for general economic inflation or superimposed inflation has been incorporated into the resulting projected payments and those payments have not been discounted to allow for the time value of money.

In 2010 RAA Insurance adopted a method based on the Development of Average Incurred Cost times ultimate claim numbers for all classes other than Home Liability to estimate the gross outstanding claims liabilities. This method was unchanged from the previous review (2009). This method assesses the ultimate cost for each accident period as:

- An expected ultimate number of claims per period, allowing explicitly for the impact of things such as 'weekend month-ends', seasonality, etc
- These claim numbers are multiplied by an expected average claim size. The average claim size is assessed as a multiple of the incurred average reported cost to date, based on the expected development pattern of claims.

Home and Boat Personal Injury Liability

The outstanding liability for this class is estimated based on the individual case estimates on each claim at the balance date plus an allowance for claims that have occurred but are yet to be reported (IBNR). This allowance takes into account the expected cost of claims per policy, the number of policies exposed and the proportion of losses yet to be recognised (all of which are derived from the analysis of the portfolio experience with due consideration to other industry statistics). As there can sometimes be a significant delay between the occurrence of the claim and the claim being reported and settled by RAA Insurance, projected payments have been discounted to allow for the time value of money.

Prudential Margin

Risk margins are added to the estimated liabilities to allow for the inherent uncertainties in the estimates and so as to achieve a 90% probability that the amount provided will be sufficient to pay out all claims.

Actuarial Assumptions

The following assumptions have been made in determining the outstanding claims liabilities:

	2010	2009
Average weighted term to settlement from reporting date	< 1 yr	< 1 yr
Average claim frequency (claims per policy)	2.7% - 15.8%	2.7% - 15.5%
Claims handling expense rate	5.3% - 10%	5.3% - 10%
Discount rate	4.70% - 4.85%	5.10%
Inflation and superimposed inflation	n/a	n/a

Process to Determine Assumptions

A description of the processes used to determine these assumptions is provided below:

Average weighted term to settlement from reporting date

The estimated average weighted term to settlement is based on historical settlement patterns.

Average claim frequency (claims per policy)

Estimated future numbers of claim reports are based on historical patterns of claim reporting.

Average claim size

Estimated average claim sizes are based on historical claim size experience, by type of claim.

22. INSURANCE DISCLOSURES (continued)

Claims handling expense rate

The allowance for claims handling expenses is based on the historical relationship between claims handling expenses and gross claim costs.

The selected discount rate is based on an empirical analysis of the current yield curve for government bonds comparing the yield and the profile of the underlying payments.

Inflation and superimposed inflation

No explicit allowance for normal and superimposed inflation has been made on the grounds of materiality.

Reinsurance and non-reinsurance recoveries

Estimates of recoveries are based on assessment of individual large claims.

Summary

RAA Insurance conducts sensitivity analyses to quantify the exposure to risk changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the performance and equity of RAA Insurance. The tables below describe how a change in each assumption will affect the insurance liabilities and show an analysis of the sensitivity of the profit / (loss) and equity to changes in these assumptions both gross and net of reinsurance.

<i>Variable</i>	<i>Impact of movement in variable</i>
Average claim size	Historical claim size information is used in determining the outstanding claims liability. An increase or decrease in the average claim size would have a corresponding increase or decrease on claims expense respectively.
Average claim frequency	Claims frequencies are used in determining the level of claims incurred but not reported (IBNR). An increase or decrease in the assumed average frequency levels would have a corresponding impact on claims expense.
Expense rate	An estimate for the internal costs of handling claims is included in the outstanding claims liability. An increase or decrease in the expense rate assumption would have a corresponding impact on claims expense.

Variable	Movement in Variable	Net Profit / (Loss)		Equity
		Gross of Reinsurance	Net of Reinsurance	\$'000
		\$'000	\$'000	\$'000
Average claim size	+10%	(1,144)	(1,144)	(1,144)
	-10%	1,144	1,144	1,144
Claim frequency - most recent accident	+10%	(1,144)	(1,144)	(1,144)
	-10%	1,144	1,144	1,144
Expense rate	+1%	(164)	(164)	(164)
	-1%	164	164	164

23. CASH FLOW STATEMENT RECONCILIATION**(a) Reconciliation of net profit after tax to net cash flows from operations**

	Consolidated 2010 \$'000	RAA of SA 2009 \$'000
Net profit / (loss)	46,012	(5,812)
<i>Adjustments for:</i>		
Depreciation	3,444	3,548
Amortisation	2,885	411
Defined benefit fund expense	31	-
Net (profit) / loss on disposal of property, plant and equipment	(648)	(1,386)
Net (gain) / loss on disposal of available for sale investments	(5,315)	7,324
Share of associates' net (profits) / losses	(3,339)	(2,428)
Net fair value adjustment on RAAI acquisition	(34,473)	-
<i>Changes in assets and liabilities:</i>		
(Increase) / decrease in inventories	(203)	(284)
(Increase) / decrease in trade and other receivables	(1,006)	(301)
(Increase) / decrease in prepayments	(287)	-
(Increase) / decrease in defined benefit plan	(41)	(666)
(Increase) / decrease in deferred tax assets	(155)	1,192
(Increase) / decrease in deferred acquisition costs	(2,635)	-
(Decrease) / increase in income tax payable	1,645	-
(Decrease) / increase in deferred tax liabilities	(182)	-
(Decrease) / increase in trade and other payables	1,124	1,059
(Decrease) / increase in provisions	345	106
(Decrease) / increase in unearned income	4,801	1,421
(Decrease) / increase in outstanding claims	38	-
Balances held on behalf of third parties	-	(276)
Net cash from / (used in) operating activities	12,041	3,908

24. RELATED PARTY DISCLOSURES

(a) Subsidiaries

The consolidated financial statements include the financial statements of Royal Automobile Association of SA Inc and the following subsidiaries:

	% Equity interest		Investment \$'000	
	2010	2009	2010	2009
RAA Insurance Holdings Ltd	100%	50%	101,000	14,006

(b) Ultimate parent

Royal Automobile Association of SA Inc is the ultimate parent entity and the ultimate parent of the Group.

(c) Key management personnel

Details relating to key management personnel, including remuneration paid, are included in note 25.

(d) Transactions with related parties

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year:

Related party	Sales to related parties	Other transactions with related parties
	\$'000	\$'000
RAA Insurance Holdings Ltd		
Dividend revenue	-	1,100
Distribution services	10,555	-
Rent and administration	894	-
Collection of insurance premiums	-	90
	<u>11,449</u>	<u>1,190</u>

The terms and conditions of the transactions with RAA Insurance Holdings Limited are largely fixed under distribution and cost sharing agreements with RAA Insurance Limited. The Statement of Financial Position includes outstanding trade and other receivables of \$1,439,014 (2009 \$1,248,534). Outstanding balances at year end are unsecured, interest free and settlement occurs in cash.

No transactions have been entered into with specified Directors or Executives. During the financial year, specified Directors and Executives purchased goods and services, which were domestic or minor in nature, from the Group on the same terms and conditions available to customers and members.

25. KEY MANAGEMENT PERSONNEL

The Rules of the Group provide for the payment of Directors' fees. The remuneration committee reviews the remuneration packages of all Directors and Executives on an annual basis and makes recommendations to the Board. Employees involved in the management of the Group are remunerated on basis determined by relevant industrial awards or commensurate with the duties, responsibilities and performance required of the individual positions as recommended by independent remuneration consultants.

The specified Directors of the Group during the financial year were:

- LC Holmes (Chairman)
- RG Grigg (Deputy Chairman)
- IH Stone (Appointed Managing Director 1 August 2009)
- JH Brown
- WS Greiner
- RJ Payze
- RN Robinson
- JE Sarah
- MS Shanahan
- DA Cross
- PR Siebels
- ED Perry
- SR Starick (Appointed 23 July 2009)

The aggregate compensation made to the specified Directors during the financial year is set out below, these amounts exclude IH Stone, who is included in the specified Executive table below:

	Consolidated 2010 \$	RAA of SA 2009 \$
Short-term employee benefits	187,986	92,237
Post-employment benefits	159,067	151,625
	347,053	243,862

The following executives also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year;

- I Stone Managing Director
- D McGown General Manager Finance & Corporate Services
- P Hurcombe General Manager Business Development
- T Griffiths General Manager Sales and Marketing
- D Jacob General Manager Operations
- S Hanlon General Manager Public Affairs (Resigned 25 August 2009)
- M Butcher General Manager Human Resources
- J Van Ruth General Manager Information Services
- P Gale General Manager Public Affairs (Appointed 7 December 2009)
- D Russell Insurance Chief Executive

25. KEY MANAGEMENT PERSONNEL (continued)

The aggregate compensation made to the specified Executives during the financial year is set out below:

	2010 \$	2009 \$
Short-term employee benefits	1,854,988	1,515,618
Long-term employee benefits	13,157	-
Post-employment benefits	187,909	165,827
Termination benefits	51,963	-
	<u>2,108,017</u>	<u>1,681,445</u>

(i) The total compensation paid to I Stone, Managing Director included in the above total is \$438,089 (2009 - \$391,154) which comprises \$413,089 (2009 - \$351,549) short-term employee benefits and \$25,000 (2009 - \$39,605) post-employment benefits.

26. DEFINED BENEFIT PENSION PLAN

As at the reporting date, the Group had 683 (2009: 606) full time equivalent employees.

The Group contributes to a number of superannuation schemes, which provide benefits on retirement, resignation, disablement or death of members of those schemes. Superannuation guarantee contributions are expensed as they are incurred. The members of the schemes and the Group make contributions as specified in the rules of the respective schemes.

Schemes providing accumulation benefits do not require actuarial assessments. In the event of termination of the schemes, or voluntary or compulsory termination of each employee, the assets of each scheme are sufficient to satisfy all vested benefits.

The last actuarial assessment of the defined benefit scheme in the Group was made at 30 June 2008 by Mr Stuart Mules, F.I.A.A. Actuarial assessments are carried out each three years. The conclusion of the actuarial review was that the funds within the scheme were considered adequate to satisfy all benefits payable in the event of termination of the scheme and voluntary or compulsory termination of employment of each employee.

Disclosure in accordance with AASB 119 Employee Benefits and in relation to the defined benefit section of the RAA Staff Superannuation Scheme.

Accounting policy

Actuarial gains and losses are recognised immediately through retained earnings in the year in which they occur.

Scheme information

Defined benefit members receive lump sum benefits on retirement, death, disablement and withdrawal. The defined benefit section of the Scheme is closed to new members. All new members receive accumulation only benefits.

Reconciliation of the present value of the defined benefit obligation

	Consolidated 30 June 2010 \$'000	RAA of SA 30 June 2009 \$'000
Opening defined benefit obligation	3,712	4,432
Current service cost	161	285
Interest cost	181	270
Contributions by scheme participants	60	66
Actuarial (gains) / losses	154	422
Benefits paid	(398)	(1,036)
Taxes, premiums & expenses paid	(96)	(727)
	<u>3,774</u>	<u>3,712</u>
Closing defined benefit obligation	3,774	3,712

26. DEFINED BENEFIT PENSION PLAN (continued)
Reconciliation of the fair value of scheme assets

	Consolidated 30 June 2010 \$'000	RAA of SA 30 June 2009 \$'000
Opening defined benefit obligation	4,672	7,292
Expected return on scheme assets	311	459
Actuarial gains / (losses)	226	(1,382)
Contributions by scheme participants	60	66
Benefits paid	(398)	(1,036)
Taxes, premiums & expenses paid	(96)	(727)
	<hr/>	<hr/>
Closing defined benefit obligation	4,775	4,672

Reconciliation of the assets and liabilities recognised in the Statement of Financial Position

Defined benefit obligation *	3,774	3,712
Fair value of scheme assets	4,775	4,672
	<hr/>	<hr/>
Net superannuation liability / (asset)	(1,001)	(960)

Expense recognised in the Statement of Comprehensive Income

Service cost *	161	285
Interest cost	181	270
Expected return on assets	(311)	(459)
	<hr/>	<hr/>
Superannuation expense / (income)	31	96

* No allowance has been made above for employer contributions for accumulation members or additional employer contributions for defined benefit members.

Amounts recognised in the Statement of Comprehensive Income

Actuarial (gains) / losses	(72)	1,804
	<hr/>	<hr/>
Adjustment for limit on net asset	-	-
	<hr/>	<hr/>
<i>Cumulative amount recognised in the Statement of Comprehensive Income</i>		
Cumulative amount of actuarial (gains) / losses	2,117	2,189
	<hr/>	<hr/>

Scheme assets

The percentage invested in each asset class at the reporting date:

	Consolidated 30 June 2010	RAA of SA 30 June 2009
Australian Equity	30%	31%
International Equity	26%	29%
Fixed Income	20%	27%
Property	7%	6%
Alternatives / Other	15%	3%
Cash	2%	4%

26. DEFINED BENEFIT PENSION PLAN (continued)
Actual return on scheme assets

	Consolidated 30 June 2010 \$'000	RAA of SA 30 June 2009 \$'000
Actual return on scheme assets	<u>537</u>	<u>(923)</u>

Principal actuarial assumptions at the reporting date

	Consolidated 30 June 2010	RAA of SA 30 June 2009
Discount rate	4.4% pa	5.0% pa
Expected rate of return on scheme assets	7.0% pa	7.0% pa
Expected salary increase rate	4.0% pa	4.0% pa

Fair value of scheme assets

The fair value of Scheme assets includes no amounts relating to:

- any of the Employer's own financial instruments
- any property occupied by, or other assets used by, the Employer.

Expected rate of return on scheme assets

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each asset class and allowing for the correlations of the investment returns between asset classes. The returns used for each asset class are net of investment tax and investment fees.

Historical information

Financial year ending	Consolidated 30 June 2010 \$'000	RAA of SA 30 June 2009 \$'000	RAA of SA 30 June 2008 \$'000	RAA of SA 30 June 2007 \$'000
Present value of defined benefit obligation	3,774	3,712	4,432	6,091
Fair value of scheme assets	<u>4,775</u>	<u>4,672</u>	<u>7,292</u>	<u>10,199</u>
(Surplus)/deficit in scheme	<u>(1,001)</u>	<u>(960)</u>	<u>(2,860)</u>	<u>(4,108)</u>
<i>Experience adjustments</i>				
Scheme assets - (gain)/loss	<u>(226)</u>	<u>1,382</u>	<u>1,767</u>	<u>(827)</u>
Scheme liabilities - (gain)/loss	<u>9</u>	<u>211</u>	<u>(297)</u>	<u>549</u>

Expected contributions

	Consolidated 30 June 2010 \$'000
Expected employer contributions	<u>-</u>

26. DEFINED BENEFIT PENSION PLAN (continued)

Funding arrangements for employer contributions

(a) Surplus / deficit

The following is a summary of the most recent financial position of the RAA Staff Superannuation Scheme calculated in accordance with AAS 25 “Financial Reporting by Superannuation Plans”. The figures below relate to the Scheme as a whole, including the accumulation section as at 30 June 2008, note that the RAA Staff Superannuation Scheme has since been transferred to AMP.

	RAA of SA 30 June 2008 \$'000
Accrued benefits	(52,289)
Net market value of scheme assets	54,573
	<hr/>
Net surplus / (deficit)	2,284
	<hr/>

(b) Contribution recommendations

The current contribution recommendations, as set out in the report of the most recent actuarial valuation of the Scheme as at 30 June 2008, are nil for defined benefit members with effect from 1 July 2009, and 9.00% (or such other agreed rate) of salaries of defined contribution members. The Employer is currently contributing at these rates.

(c) Funding method

The method used to determine the employer contribution recommendations at the last actuarial review was the Aggregate Funding method. The method adopted affects the timing of the cost to the Employer.

(d) Economic assumptions

The long-term economic assumptions adopted for the last actuarial review of the Scheme as at 1 July 2008 were:

	RAA of SA 30 June 2008
Expected rate of return on assets (discount rate)	6.6% pa
Expected salary increase rate	4.0% pa

Nature of asset / liability

The Group has recognised an asset in the Statement of Financial Position in respect of its defined benefit superannuation arrangements. If a surplus exists in the Scheme, the Group may be able to take advantage of it in the form of a reduction in the required contribution rate for both defined benefit (and potentially for defined contribution members), depending on the advice of the Scheme’s actuary.

The Employer may at any time by notice to the Trustee terminate its contributions. The Employer has a liability to pay the contributions due prior to the effective date of the notice, but there is no requirement for the Employer to pay any further contributions, irrespective of the financial condition of the Scheme.

27. BUSINESS COMBINATION

(a) Summary of acquisition

On 28 February 2010, the Association received a “putting notice” from GIO Insurance Investment Holdings A Pty Ltd to acquire the remaining 50% of shares in RAA Insurance Holdings Ltd, a personal lines general insurer. At this time the Association gained economic control of RAA Insurance Holdings Ltd and its subsidiaries with the power to govern the financial and operating policies and to obtain ultimate benefits from their activities.

On 29 June 2010 the purchase was finalised for cash consideration of \$50,500,000, at which stage the Association owned 100% of the issued ordinary shares in RAA Insurance Holdings Limited. The consolidated Statement of Comprehensive Income includes sales revenue and net profit for the year ended 30 June 2010 of \$30,955,000 and \$3,501,000 respectively, as a result of the acquisition of RAA Insurance Holdings Ltd. Had the acquisition of RAA Insurance Holdings Ltd occurred at the beginning of the reporting period, the consolidated Statement of Comprehensive Income would have included revenue and profit of \$87,691,000 and \$9,776,000 respectively (before consolidation adjustments). Details of the purchase consideration, the fair value of the assets and liabilities acquired and goodwill are as follows:

	30 June 2010 \$'000
<i>Acquisition-date-fair-value of consideration transferred</i>	
Cash paid	50,500
Fair value of equity interest in RAA Insurance Holdings Ltd held before the business combination	<u>50,500</u>
Total net assets	<u>101,000</u>
Direct costs relating to the acquisition	1,031

(b) Fair value gain on revaluation of equity accounted investment in associates

	Note	30 June 2010 \$'000
Acquisition date fair value of 50% equity interest (immediately before acquisition date)		50,500
Less equity accounted investment as at 28 February 2010	12	<u>(16,027)</u>
Unrealised gain on fair value adjustment of equity investment		<u>34,473</u>

(c) Purchase consideration

	30 June 2010 \$'000
The cash outflow on acquisition is as follows:	
Net cash acquired with the subsidiary	4,343
Cash paid	<u>(50,500)</u>
Net consolidated cash outflow	<u>(46,157)</u>

27. BUSINESS COMBINATION (continued)**(d) Assets and liabilities acquired**

The Group has provisionally recognised the fair values of the identifiable assets and liabilities of RAA Insurance Holdings Limited based upon the best information available as at the reporting date. Provisional business combination accounting is as follows:-

	Consolidated	
	Fair value at acquisition date \$'000	Carring value \$'000
Cash and cash equivalents	4,343	4,343
Trade and other receivables	37,859	37,859
Financial assets	60,344	60,344
Deferred acquisition costs	-	7,659
Property, plant and equipment	635	635
Deferred tax assets	3,578	1,238
Intangible assets:		
Computer software	154	154
Customer relationships	5,000	-
Customer contracts	1,900	-
Brand	15,400	-
	<hr/>	<hr/>
Total Assets	129,213	112,232
	<hr/>	<hr/>
Payables	(2,600)	(2,600)
Outstanding claims liability	(22,554)	(22,554)
Unearned premium liability	(52,857)	(52,857)
Deferred tax liabilities	(6,690)	(457)
Provision for employee entitlements	(1,186)	(1,186)
Current tax liability	(527)	(527)
	<hr/>	<hr/>
Total Liabilities	(86,414)	(80,181)
	<hr/>	<hr/>
Provisional fair value of identifiable net assets	42,799	
Goodwill arising on acquisition	58,201	
	<hr/>	
Total net assets acquired	101,000	

Key factors contributing to goodwill are the synergies existing within the acquired business, and synergies expected to be achieved as a result of combining RAA Insurance Holdings Ltd with the Association. The goodwill balance represents goodwill attributed to the parent only.

Included in the business acquired were receivables with a gross contractual and fair value of \$37,859,000 resulting from trade sales with customers. Management expects these amounts to be collected in full and converted to cash consistent with customer terms.

28. COMMITMENTS**(a) Leasing commitments**

The Group has entered into commercial property leases. These leases have an average life of between one to twelve years. They generally provide the Group with a right of renewal at which time all terms are renegotiated. There are no restrictions placed upon the Group by entering into these leases.

	Consolidated 2010 \$'000	RAA of SA 2009 \$'000
Future minimum rentals payable under non-cancellable operating leases as at 30 June 2010 are as follows:		
Within one year	1,144	832
After one year but not more than five years	2,625	1,629
Total minimum lease payments	3,769	2,461

(b) Property, plant and equipment commitments

Within one year	58	3,000
	58	3,000

29. CONTINGENT LIABILITY

Bank guarantees provided as security for outstanding workers' compensation claims

	720	690
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30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise receivables, payables, bank loan, available for sale and held-to-maturity investments, cash and short-term deposits.

Risk exposures and responses

The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The main risks arising from the Group's financial instruments are interest rate risk, price risk, credit risk and liquidity risk. The Group uses different measures to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate risk and assessments of market forecasts for interest rate and commodity prices. Ageing analysis and monitoring of specific credit allowances are undertaken to manage credit risk, liquidity risk is monitored through the development of future rolling cash flow forecasts.

Primary responsibility for identification and control of financial risk rests with the Investment Committee under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below.

Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's long-term debt obligations. The level of debt is disclosed in note 18.

At balance date, the Group had the following mix of financial assets and liabilities exposed to variable interest rate risk that are not designated in cash flow hedges:

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

	Consolidated 2010 \$'000	RAA of SA 2009 \$'000
Financial assets		
Cash and cash equivalents	23,915	6,910
Deposits in trust account	708	455
	<u>24,623</u>	<u>7,366</u>
Financial liabilities		
Loan	(25,000)	-
Deposits in trust account	(708)	(455)
	<u>(25,708)</u>	<u>(455)</u>
Net exposure	<u>(1,085)</u>	<u>6,910</u>

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing, alternative hedging positions and the mix of fixed and variable interest rates.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date;

At 30 June 2010, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

	Post Tax Profit Higher / (Lower)		Equity Higher / (Lower)	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Consolidated				
+1% (100 basis points)	164	48	164	48
-1% (100 basis points)	(164)	(48)	(164)	(48)

The movements in profits and equity are due to higher / lower interest costs from variable rate debt and cash balances. The sensitivity is higher in 2010 than in 2009 due to an increase in financial liabilities over the twelve month period.

Significant assumptions used in the interest rate sensitivity analysis include:

- The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months from balance date
- The effect of other comprehensive income is the effect on the available for sale reserve

Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and committed available credit lines.

The Group manages its liquidity risk by monitoring the total cash inflows and outflows expected on a monthly basis. The Group has established comprehensive risk reporting covering its operations that reflect expectations of management of the expected settlement of financial assets and liabilities.

The following liquidity risk disclosures reflect all contractually fixed pay-offs, repayments and interest resulting from recognised financial liabilities as of 30 June 2010. For the other obligations the respective undiscounted cash flows for the

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

respective upcoming fiscal years are presented. The timing of cash flows for liabilities is based on the contractual terms of the underlying contract. However, where the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay. When the Group is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the Group is required to pay.

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows of non-derivative financial instruments. Trade payables and other financial liabilities mainly originate from the financing of assets used in the Group's ongoing operation. Liquid non-derivative assets comprising cash and receivables are considered in the Group's overall liquidity risk. The Group ensures that sufficient liquid assets are available to meet all the required short-term cash payments.

Consolidated	Less than 1 year	1-5 years	Total
Year ended 30 June 2010			
Liquid financial assets			
Cash and cash equivalents	23,915	-	23,915
Trade and other receivables	40,978	984	41,962
Deposits in trust account	708	-	708
	<u>65,601</u>	<u>984</u>	<u>66,585</u>
Financial liabilities			
Trade and other payables	10,488	-	10,488
Loan and borrowings	5,000	20,000	25,000
Deposits in trust account	708	-	708
	<u>16,196</u>	<u>20,000</u>	<u>36,196</u>
Net inflow / (outflow)	<u>49,405</u>	<u>(19,016)</u>	<u>30,389</u>

Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables and available for sale financial assets. The Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of the financial assets (as outlined in each applicable note).

The Group does not hold any credit derivatives to offset its credit exposure. The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer in accordance with parameters set by the board. These risk limits are regularly monitored.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's experience of bad debts has not been significant. The credit quality is assessed and monitored as follows:

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

	Equivalent S&P Rating (*)		Not Rated	Total
	A+ and above	BBB and below		
Year ended 30 June 2010				
Current financial assets				
Cash and cash equivalents	11,103	-	12,812	23,915
Deposits in trust account	-	-	708	708
Trade and other receivables	-	-	41,962	41,962
Financial assets	35,383	-	56,505	91,888
	<u>46,486</u>	<u>-</u>	<u>111,987</u>	<u>158,473</u>
Non-current financial assets				
Financial assets	-	-	1,001	1,001
Trade and other receivables	-	-	984	984
	<u>-</u>	<u>-</u>	<u>1,985</u>	<u>1,985</u>
Year ended 30 June 2009				
Current financial assets				
Cash and cash equivalents	-	-	6,910	6,910
Deposits in trust account	-	-	455	455
Trade and other receivables	-	-	11,143	11,143
Financial assets	-	-	48,235	48,235
	<u>-</u>	<u>-</u>	<u>66,744</u>	<u>66,744</u>
Non-current financial assets				
Financial assets	-	-	960	960
Trade and other receivables	-	-	-	-
	<u>-</u>	<u>-</u>	<u>960</u>	<u>960</u>

(*) The equivalent S&P rating of the financial assets represents that rating of the counterparty with whom the financial asset is held rather than the rating of the financial asset itself.

Fair value

The carrying amount of financial assets and financial liabilities recorded in the financial statements is not materially different from their respective net fair values, determined in accordance with the accounting policies disclosed in Note 1 to the financial statements.

Consolidated	Quoted market	Total
Financial assets		
Financial assets at fair value through profit and loss		
Listed investments	60,946	60,946
Available for sale investments		
Listed investments	4,674	4,674
	<u>65,620</u>	<u>65,620</u>

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Price risk

The Group is exposed to price risk through its investment in equity securities. A downturn in the equities market can have a negative impact on the Group's future financial performance. The impact of any significant movement is managed by ensuring that the investment portfolio consists of a high-quality holding of Australian companies diversified over a wide range of industries.

At 30 June 2010, if equity prices had moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

	Post Tax Profit Higher / (Lower)		Other Comprehensive Income Higher / (Lower)	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Consolidated				
+1%	860	339	860	339
-1%	(860)	(339)	(860)	(339)

The sensitivity is higher in 2010 than in 2009 because of an increase in the investment in financial assets over the twelve month period.

Significant assumptions used in the sensitivity analysis include:

- The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months from balance date
- The effect of other comprehensive income is the effect on the available for sale reserve

31. AUDITORS REMUNERATION

The auditor of the Parent is Ernst & Young.

	Consolidated 2010 \$	RAA of SA 2009 \$
<i>Amounts received or due and receivable by Ernst & Young (Australia) for:</i>		
• An audit or review of the financial report of the entity and any other entity in the consolidated group	61,400	40,200
• Other services in relation to the entity and any other entity in the consolidated group		
- Income tax compliance	12,360	20,240
- Indirect tax consulting	28,437	28,454
	<u>102,197</u>	<u>88,894</u>

32. EVENTS AFTER THE REPORTING DATE

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Group, to significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group, in future years.

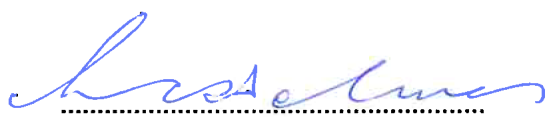
ROYAL AUTOMOBILE ASSOCIATION OF SOUTH AUSTRALIA INC.

Directors' Declaration

In accordance with a resolution of the directors of the Royal Automobile Association of South Australia Incorporated, We state that:

1. In the opinion of the Directors:
 - a) The financial statements and notes of the Association and of the consolidated entity are in accordance with the Associations Incorporation Act 1985, including:
 - (i) Giving a true and fair view of the Association's and consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date.
 - (ii) Complying with Accounting Standards and Rules of the Association.
 - b) There are reasonable grounds to believe that the Association will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with the Associations Incorporation Act 1985 for the financial year ended 30 June 2010.

On behalf of the board



LC Holmes

President



RG Grigg

Vice President

Adelaide, 27 September 2010

Independent audit report to members of The Royal Automobile Association of South Australia Incorporated

Scope

We have audited the accompanying financial report of the Royal Automobile Association of South Australia Incorporated (the Association), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors declaration of the consolidated entity comprising the Association and the entities it controlled at the year's end or from time to time during the financial year.

The Directors' Responsibility for the Financial Report

The Association's directors are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and with the *Associations Incorporation Act South Australia 1985*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our 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, we consider 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 Australian professional accounting bodies.

Auditor's Opinion

In our opinion the financial report presents fairly, in all material respects, the financial position of the Royal Automobile Association of South Australia and the consolidated entity as of 30 June 2010 and of its financial performance and cash flows for the year then ended in accordance with the *Associations Incorporation Act South Australia 1985* and Australian Accounting Standards (including the Australian Accounting Interpretations).

A handwritten signature in blue ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in blue ink that reads 'Alan Herald'.

Alan Herald
Adelaide
27 September 2010