# Financial Statements 2018

Improving the lives of Victorians

RACV

# Contents



**Notes to the Financial Statements**



This financial report covers the consolidated entity consisting of Royal Automobile Club of Victoria (RACV) Limited and its subsidiaries. Royal Automobile Club of Victoria (RACV) Limited is a company limited by guarantee, incorporated and domiciled in Australia. Its principal place of business is: Level 7, 485 Bourke Street, Melbourne Victoria 3000. A description of the Company's principal activities and a review of operations are included in the Directors' Report in the Annual Review. The financial report was authorised for issue by the directors on 29 August 2018. The Company has the power to amend and reissue the financial report.

# Directors' Report
## 30 June 2018

The Directors of the Royal Automobile Club of Victoria (RACV) Limited (the parent entity) present their report together with the financial report of the consolidated entity (the Group), being the parent entity and its subsidiaries, for the year ended 30 June 2018.

### Directors

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

| | | |
|---|---|---|
| Mr G J Chipp | Ms N M Griffin (Chairman) | Mr G D Willis |
| Mr G O Cosgriff | Ms P M Kelly | Mr J M S Slattery |
| Mr A Downie | Ms M H Kelsall | Mr N Taylor |
| Ms J K Green | Ms J L Leonard | |

Mr K W White resigned as a director of the parent entity on 28 March 2018.

Mr G Robinson was appointed as a director of the parent entity on 28 March 2018 and continues in office to the date of this report.

The qualifications, experience, special responsibilities and other details of the directors in office at the date of this report are set out on pages 2 to 4.

The number of RACV Board and committee meetings held during the financial year, and each RACV's director's attendance at those meetings, are set out on page 4.

### Principal Activities, Objectives and Strategies

The principal activities of the Group during the financial year were roadside assistance, towing services, social club and resort operations, financial services, travel and tourism, telematics programs and digital traffic services, advocacy, home services and the provision and distribution of general insurance.

RACV's objectives are to deliver valued benefits to its members and their communities by informing and advising them, representing members' interests and providing them with assistance when in need by delivering excellent products and services in our fields of motoring, mobility, leisure, assurance, financial services, social wellbeing and the home.

Strategies used by the Group to deliver its objectives are outlined in RACV's Strategic Statement, which is available online at www.racv.com.au.

Further details on how the Group's activities assist in achieving the entity's strategic priorities and objectives can be found in the President and Chairman's Report and Managing Director and Chief Executive Officer's Report in the 2018 Annual Review.

### Review of Results and Operations

Information about the Group's financial position and financial results is included in the consolidated Financial Statements section of the Annual Review.

A review of the Group's operations and results can be found in the 2018 Annual Review. The review assesses membership, assistance products and services, roadside assistance, insurance, advocacy, travel, leisure and community activities.

### Dividends

In compliance with the Memorandum and Articles of Association of RACV Limited, no dividend was declared nor paid during the financial year.

### Subsequent Events

On 17 July 2018, RACV acquired the remaining 49 per cent shares in Club Home Response Pty Ltd (CHR) for a total consideration of $4.0 million. As a result, CHR became a fully owned subsidiary of RACV.

On 9 August 2018, Insurance Manufacturers of Australia Pty Ltd (IMA) declared a dividend relating to the year ended 30 June 2018. RACV has received $29.7 million of this dividend. The dividend has no impact on the Financial Statements for the year ended 30 June 2018.

In the opinion of the directors, there are no other matters or circumstances which have arisen between 30 June 2018 and the date of this report that have significantly affected or may significantly affect the operations of the Group, the results of those operations and the state of affairs of the Group in subsequent financial years.

### Environmental Regulation and Performance

The Group has in place procedures to identify and comply with particular and significant environmental regulations. Except as set out below, the operations of the Group are not subject to any particular and significant environmental regulation under a law of the Commonwealth of Australia or any of its states or territories and has not incurred any significant liabilities under any environmental legislation.

The *National Greenhouse and Energy Reporting Act 2007* makes registration and reporting mandatory for corporations whose energy production, energy use or greenhouse gas emissions trigger the specified corporate or facility threshold. RACV has reached the corporate threshold defined within this legislation and is required to submit its annual report by 31 October 2018.

# Board of Directors

The Board currently comprises 11 non-executive directors and one executive director who is appointed as Managing Director/Chief Executive Officer. Non-executive directors are elected by members in accordance with Article 33 of the Memorandum and Articles of Association of RACV Limited.

The maximum annual aggregate directors' fee pool limit is $2,000,000 which was approved by members at the Annual General Meeting on 12 November 2013 in accordance with Article 38(a) of RACV Limited's Articles of Association. The total amount of fees paid to non-executive directors during the financial year was $1,471,025 (2017: $1,525,444).

**Netta M Griffin** BA, FAICD, Dip. CD

Experience

Independent non-executive director appointed in July 1998. Career in management and was previously General Manager Customer Operations with a major utility. Was a member of La Trobe University Council for 13 years, having served as Chair of Corporate Governance, Audit and Risk Management.

Special responsibilities

President and Chairman
Chairman of the Appointments and Remuneration Committee

**Neil Taylor** BA (Geog)

Experience

Managing Director and Chief Executive Officer of RACV Limited and its associated entities, appointed in March 2016. Formerly Chief Executive Officer of Greyhound Australia. Over 25 years' experience in the corporate sector, both in Australia and overseas. Has completed courses at both Wharton and Harvard Business Schools in the United States of America.

Special responsibilities

Managing Director and Chief Executive Officer

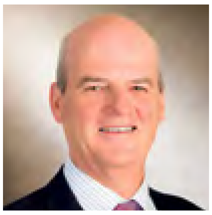
**Graeme J Chipp** B.Bus (Acc), MBA (avec mention), GAICD, FAMI

Experience

Independent non-executive director appointed in June 2008. Co-founder and Managing Director of management consultants, Growth Solutions Group Pty Ltd, and now a partner with SPP management consultants. A trustee of the Robert Rose Foundation and has over 30 years' experience in the corporate sector including senior roles with ANZ and McKinsey and Company.

Special responsibilities

Chairman, RACV Community Foundation Ltd



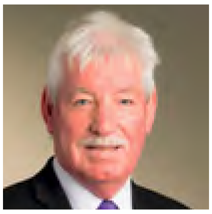
**Geoffrey O Cosgriff** BAppSc (Elec), FAICD, FIE Australia, Dip.CD, WCLP

Experience

Independent non-executive director appointed in November 2012. Extensive business experience as an executive manager and director in information technology, transport and infrastructure companies. Currently Chairman of Leadership Victoria, formerly Chairman of UXC Ltd and a former director of Logica Australia and Transurban. Actively engaged in coaching and mentoring executive managers and directors of companies in a diverse range of industry sectors. Appointed non-executive director of Intelematics Australia Pty Limited in April 2013.

Special responsibilities

Chairman of the Governance and Risk Management Committee
Deputy Chairman



**Alex Downie** BA, MAICD

### Experience

Independent non-executive director appointed in November 2004. Consultant to legal and commercial firms and has 30 years' experience with Telecom, Australia Post and the former Postmaster General's Department. Awarded the Australian Sports Medal in 2000. Associate Member of the Law Institute.

**Julie K Green** FCA, FAICD, WCLP

### Experience

Independent non-executive director appointed in November 2013. Director of Greening Australia, Loddon Mallee Waste & Resource Recovery Group, Deputy Chair Maldon Hospital and Chair The Innovation Cooperative. Formerly Director of Shepparton Villages, a large regional aged care provider. Executive career in professional services, infrastructure, transport, utilities and healthcare in the public and private sectors. A business consultant in strategy, governance and change management.

**Patricia M Kelly**

### Experience

Independent non-executive director appointed in June 2010. Over 35 years' experience in the Financial Services industry. Former Executive General Manager Strategy and Business Development Personal Insurance at Suncorp/AAMI and previously director and executive of Norwich Union Life Australia. Past President and Honorary Life Member of the Insurance Institute of Victoria and former director of the Australian and New Zealand Institute of Insurance and Finance. Currently Chairman of Ansvar Ltd and an independent non-executive director of Legal Practitioners Liability Committee.

**Merran H Kelsall** BCom (Hons), FCA, FCPA, MBA, FAICD

### Experience

Independent non-executive director appointed in June 2008. Former partner of BDO Chartered Accountants, former Chairman, Auditing and Assurance Standards Board and Australian Health Service Alliance Ltd and a Member International Auditing & Assurance Standards Board. Currently, a Director of Melbourne Water Corporation and VicSuper and Deputy President, CPA Australia.

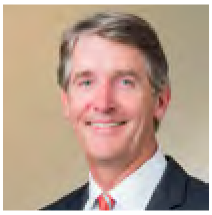
### Special responsibilities

Chairman of the Audit and Compliance Committee

**Jodie Leonard** BBus (Marketing), GAICD, FAMI, CPM

### Experience

Independent non-executive director appointed June 2017. Over 30 years' experience in corporate strategy and marketing, both locally and internationally. Former Vice President Strategy and Marketing at GE. Currently a non-executive director of Flexigroup (ASX:FXL). Formerly a non-executive director of Beyond Bank Australia, Racing Victoria, Tourism North East and an Advisory Board Member of Monash Business School (Marketing).



**Gregory J Robinson** Bsc (Hon), MBA (Columbia), MAICD

Experience

Independent non-executive director appointed in April 2018. Over 30 years' experience in strategy, operations management, finance, accounting, risk management and resources both in Australia and overseas. Previously CEO of Newcrest Mining and Lattice Energy; Finance Director Newcrest Mining; CFO/CDO BHP's Energy Division (member group Executive Committee) and Director Merrill Lynch Investment Banking. Previous board member at St Vincent's Institute of Medical Research.

**John M S Slattery** BCom, LLB(Hons)

Experience

Independent non-executive director appointed in June 2011. Former corporate law partner in the national legal firm of Corrs Chambers Westgarth for 27 years, and former partner in charge of the Melbourne office, Chairman of the International Division of Corrs, and member of the Corrs national executive between 1999 and 2009.

Special responsibilities

Chairman of the Club and Membership Committee

**Graeme Willis** SF Fin, FAICD, FCIBS, FGIA

Experience

Independent non-executive director appointed in April 2012. Completed a Management Development program at the Harvard Business School and Fellow of Governance Institute of Australia. A career of over 40 years in banking and finance and held many senior Board and executive management positions with major European and Australian banks. An independent non-executive director and Deputy Chairman of Bank First. Former Managing Partner at HSW Capital Pty Ltd.

Special responsibilities

Chairman of R.A.C.V. Finance Limited

## RACV Board and Committee meetings

| | Board meetings | | Audit and compliance committee | | Governance and risk management committee | | Club and membership committee | | Appointments and remuneration committee | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Director** | **A** | **B** | **A** | **B** | **A** | **B** | **A** | **B** | **A** | **B** |
| Mr G J Chipp | 9 | 9 | 1 | 1 | – | – | 1 | 1 | – | – |
| Mr G O Cosgriff | 8 | 8 | – | – | 6 | 6 | – | – | 4 | 4 |
| Mr A Downie | 9 | 9 | – | – | – | – | 4 | 4 | – | 1 |
| Ms J K Green | 8 | 8 | 1 | 1 | 4 | 3 | 3 | 3 | – | 1 |
| Ms N M Griffin | 8 | 8 | – | 2 | 5 | 5 | 4 | 4 | 4 | 4 |
| Ms P M Kelly | 9 | 9 | 3 | 3 | – | – | – | – | – | 1 |
| Ms M H Kelsall | 9 | 9 | 3 | 3 | 4 | 2 | – | – | 4 | 3 |
| Ms J L Leonard | 9 | 9 | 2 | 2 | 2 | 2 | – | – | – | 1 |
| Mr G J Robinson | 2 | 2 | – | – | – | – | – | – | – | – |
| Mr J M S Slattery | 8 | 8 | 1 | – | 4 | 4 | 4 | 4 | – | 1 |
| Mr N Taylor | 9 | 9 | – | 3 | – | 5 | – | 4 | – | 2 |
| Mr K W White | 7 | 7 | 2 | 1 | 4 | 3 | 3 | 2 | 4 | 4 |
| Mr G D Willis | 9 | 8 | 2 | 2 | 6 | 6 | – | – | 4 | 3 |

A = Number of meetings eligible to attend.

B = Number of meetings attended.

The Managing Director attends all Committee meetings by invitation.

Other Directors attend some committee meetings by invitation.

## Company Secretary

Ms M E Grogan, FGIA, LLB (Hons), BA, GradDipAppFin was appointed to the position of Company Secretary in April 2018. Ms Grogan is admitted to practice as an Australian lawyer and has had over 25 years commercial, governance and legal experience. Ms Grogan has responsibility for all Company and Board secretarial duties.

The alternate Company Secretaries are:

- Mr R C Tweddle, AGIA, BA, LLB who was appointed to the position of alternate Company Secretary in 2005. He has practised as a solicitor for 27 years.
- Mr P C Rich, AGIA, BCom, Grad.Dip.AppCorpGov who was appointed to the position of alternate Company Secretary in 2010.

## Indemnification and Insurance of Directors and Officers

To the extent permitted by law, the parent entity has indemnified each director, secretary and officer against liability arising from their role as directors and officers by paying premiums on an insurance contract. This insurance contract prohibits disclosure of the premium paid. No liabilities have arisen under these indemnities as at the date of this report.

## Auditor's Independence Declaration

The Auditor's independence declaration is set out on below and forms part of the Directors' report for the year ended 30 June 2018.

## Rounding

The Group is a company of a kind referred to in the Australian Securities and Investments Commission Class Order 2016/191 dated 24 March 2016. Amounts in this Directors' report and the consolidated Financial Statements, unless otherwise indicated, have been rounded to the nearest hundred thousand dollars in accordance with that Class Order.

This Directors' report is signed in accordance with a resolution of the Board of directors.

**N M Griffin**
Director

**N Taylor**
Managing Director and Chief Executive Officer

Melbourne,
29 August 2018

## Auditor's Independence Declaration

As lead auditor for the audit of Royal Automobile Club of Victoria (RACV) Limited for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Royal Automobile Club of Victoria (RACV) Limited and the entities it controlled during the period.

**JF Power**
Partner
PricewaterhouseCoopers

Melbourne,
29 August 2018

# Consolidated Income Statement
## For the year ended 30 June 2018

| | Notes | 2018 $m | 2017 $m |
|---|---|---|---|
| **Revenue** | | | |
| Subscription and entrance fee income | | **214.9** | 197.3 |
| Commission income | | **119.5** | 111.6 |
| Club and resorts trading income | | **162.8** | 151.8 |
| Sale of goods | | **13.4** | 19.2 |
| Other trading income | | **80.7** | 66.2 |
| Interest on loans and leases | | **32.1** | 28.5 |
| Trust distributions | | **22.5** | 30.9 |
| Rental income | | **6.4** | 8.2 |
| Interest income | | **1.8** | 1.6 |
| Profit on sale of plant and equipment | | **0.6** | 2.9 |
| Operating revenue | | **654.7** | 618.2 |
| Fair value adjustment to assets | 4,6 | **24.0** | 1.6 |
| Gain from business disposal | 18 | **13.4** | – |
| Discount on acquisition | 17 | **0.3** | – |
| Other income | | **37.7** | 1.6 |
| **Total revenue** | | **692.4** | **619.8** |
| **Expenses** | | | |
| Employee benefits expense | | **(269.9)** | (248.7) |
| External fees expense | | **(80.6)** | (65.0) |
| Computer and telecommunications expense | | **(55.0)** | (54.4) |
| Depreciation and amortisation expense | | **(50.8)** | (43.7) |
| Advertising expense | | **(42.5)** | (48.1) |
| Inventories recognised as expense | | **(38.5)** | (43.1) |
| Consumables expense | | **(34.5)** | (28.2) |
| Property expense | | **(33.8)** | (30.9) |
| Impairment of intangible assets | 5 | **(25.6)** | (18.5) |
| Interest expense and other finance costs | | **(25.5)** | (21.2) |
| Impairment of property, plant and equipment (net of reversal) | 4 | **(20.2)** | (32.8) |
| Other expenses | | **(21.2)** | (21.6) |
| Other charges relating to assets | | **(1.0)** | (3.1) |
| Provision for property development | 7 | **9.5** | 6.0 |
| **Total expenses** | | **(689.6)** | **(653.3)** |
| Share of net profit of equity accounted investments | 19(b) | **83.9** | 78.0 |
| **Profit before net gain on available for sale financial assets and income tax** | | **86.7** | **44.5** |
| **Net gain on available for sale financial assets** | | | |
| Net gain on available for sale financial assets sold | | **10.6** | 3.5 |
| **Profit before income tax** | | **97.3** | **48.0** |
| Income tax expense | 12 | **(26.8)** | (6.8) |
| **Profit after income tax** | | **70.5** | **41.2** |
| Profit after income tax is attributable to: | | | |
| Members of RACV Group | | **67.3** | 40.3 |
| Non-controlling interests | | **3.2** | 0.9 |
| | | **70.5** | **41.2** |

The above consolidated Income Statement should be read in conjunction with the accompanying notes.

# Consolidated Statement of Comprehensive Income
## For the year ended 30 June 2018

| | Notes | 2018 $m | 2017 $m |
|---|---|---|---|
| **Profit after income tax** | | **70.5** | **41.2** |
| | | | |
| **Other comprehensive income** | | | |
| Items that may be reclassified to profit or loss: | | | |
| Changes in the fair value of available for sale financial assets, net of tax | 21(a) | **3.4** | 8.4 |
| Exchange differences on translation of foreign operations, net of tax | 21(c) | **0.7** | – |
| | | | |
| Items that will not be reclassified to profit or loss: | | | |
| (Loss)/gain on revaluation of land and buildings, net of tax | 21(a) | **(6.8)** | 61.2 |
| Superannuation plan remeasurements, net of tax | 21(c) | **0.6** | 6.8 |
| Change in associate retained earnings, net of tax | 21(c) | **(0.2)** | – |
| | | | |
| **Other comprehensive (loss)/income for the year, net of tax** | | **(2.3)** | **76.4** |
| | | | |
| **Total comprehensive income for the year** | | **68.2** | **117.6** |
| | | | |
| Total comprehensive income for the year is attributable to: | | | |
| Members of RACV Group | | **65.0** | 116.6 |
| Non-controlling interests | | **3.2** | 1.0 |
| | | **68.2** | 117.6 |

The above consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

# Consolidated Balance Sheet
## As at 30 June 2018

| | Notes | 2018 $m | 2017 $m |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 1 | **54.4** | 61.8 |
| Receivables | 2 | **152.9** | 140.7 |
| Available for sale financial assets | 8 | **47.8** | 121.5 |
| Inventories | | **4.6** | 3.0 |
| Prepayments and accrued income | | **22.6** | 28.9 |
| Finance lease receivables | | **2.4** | – |
| Current tax asset | | **0.4** | – |
| **Total current assets** | | **285.1** | **355.9** |
| | | | |
| **Non-current assets** | | | |
| Receivables | 2 | **303.9** | 306.7 |
| Available for sale financial assets | 8 | **454.7** | 427.2 |
| Investments accounted for using the equity method | 19 | **308.3** | 252.6 |
| Property, plant and equipment | 4 | **767.6** | 728.9 |
| Intangible assets | 5 | **94.4** | 104.9 |
| Investment properties | 6 | **65.7** | 42.1 |
| Deferred tax assets | 13 | **50.6** | 72.6 |
| Finance lease receivables | | **10.3** | – |
| **Total non-current assets** | | **2,055.5** | **1,935.0** |
| | | | |
| **Total assets** | | **2,340.6** | **2,290.9** |
| | | | |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 3 | **75.7** | 96.7 |
| Interest bearing liabilities | 9 | **318.8** | 147.7 |
| Current tax payable | | **–** | 0.8 |
| Provisions | 7 | **40.1** | 53.2 |
| Unearned income | | **120.9** | 129.0 |
| **Total current liabilities** | | **555.5** | **427.4** |
| | | | |
| **Non-current liabilities** | | | |
| Interest bearing liabilities | 9 | **59.5** | 206.6 |
| Superannuation benefits | 15 | **13.9** | 14.0 |
| Provisions | 7 | **10.9** | 6.9 |
| **Total non-current liabilities** | | **84.3** | **227.5** |
| | | | |
| **Total liabilities** | | **639.8** | **654.9** |
| | | | |
| **Net assets** | | **1,700.8** | **1,636.0** |
| | | | |
| **EQUITY** | | | |
| Member reserves | 21(a) | **108.9** | 116.4 |
| Retained earnings | 21(c) | **1,584.3** | 1,514.3 |
| | | | |
| **Equity attributable to members of RACV Group** | | **1,693.2** | **1,630.7** |
| | | | |
| Non-controlling interests | | **7.6** | 5.3 |
| | | | |
| **Total equity** | | **1,700.8** | **1,636.0** |

The above consolidated Balance Sheet should be read in conjunction with the accompanying notes.

# Consolidated Statement of Cash Flows

## As at 30 June 2018

| | Notes | 2018 $m | 2017 $m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Subscription and entrance fee income received | | **227.9** | 218.1 |
| Club and resorts trading income received | | **179.3** | 169.3 |
| Commission income received | | **131.5** | 122.5 |
| Sale of goods | | **14.5** | 21.1 |
| Other trading income received | | **96.0** | 82.0 |
| Payments to suppliers and employees | | **(651.8)** | (598.1) |
| Net cash outflow from loans and leases | | **(8.5)** | (95.1) |
| Dividends received from equity accounted investments | | **35.5** | 69.3 |
| Interest received | | **36.2** | 31.8 |
| Interest paid | | **(12.7)** | (10.5) |
| Income tax paid | | **(5.7)** | (3.9) |
| **Net cash inflow from operating activities** | 1 | **42.2** | **6.5** |
| | | | |
| **Cash flows from investing activities** | | | |
| Trust distributions received | | **27.9** | 30.0 |
| Proceeds from sale of property, plant and equipment | | **2.5** | 5.1 |
| Proceeds from sale/maturity of available for sale financial assets | | **344.2** | 162.2 |
| Purchase of available for sale financial assets | | **(286.7)** | (172.4) |
| Purchase of property, plant and equipment | | **(91.3)** | (97.0) |
| Purchase of intangibles | | **(25.8)** | (24.0) |
| Payment for business acquisitions, net of cash acquired | | **(37.8)** | – |
| Payment for acquisition of controlled entities | | **(8.8)** | – |
| Proceed from business disposal | | **27.0** | – |
| Payment for equity accounted investments | | **(2.2)** | – |
| **Net cash outflow from investing activities** | | **(51.0)** | **(96.1)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Net proceeds from issue of borrowings/secured notes | | **3.5** | 11.3 |
| Net (repayments)/proceeds from subscription agreement | | **(6.5)** | 67.1 |
| Net proceeds from finance lease liabilities | | **3.0** | – |
| Proceeds from repayments of finance lease receivables | | **2.1** | – |
| Payments of loans to associates | | **(0.7)** | – |
| **Net cash inflow from financing activities** | | **1.4** | **78.4** |
| | | | |
| **Net decrease in cash and cash equivalents** | | **(7.4)** | **(11.2)** |
| Cash and cash equivalents at beginning of financial year | | **61.8** | 73.0 |
| **Cash and cash equivalents at end of financial year** | 1 | **54.4** | **61.8** |

The above consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

# Consolidated Statement of Changes in Equity

## As at 30 June 2018

| | Notes | Attributable to members of RACV Group: Member reserves $m | Retained earnings $m | Total members' equity $m | Non-controlling interests $m | Total equity $m |
|---|---|---|---|---|---|---|
| **Balance at 1 July 2016** | | **47.9** | **1,466.2** | **1,514.1** | **5.1** | **1,519.2** |
| Profit after income tax | | – | 40.3 | 40.3 | 0.9 | 41.2 |
| Other comprehensive (loss)/income | | 68.5 | 7.8 | 76.3 | 0.1 | 76.4 |
| Total comprehensive income for the year | | 68.5 | 48.1 | 116.6 | 1.0 | 117.6 |
| Dividends provided for or paid | | – | – | – | (0.8) | (0.8) |
| **Balance at 30 June 2017** | 21 | **116.4** | **1,514.3** | **1,630.7** | **5.3** | **1,636.0** |
| Profit after income tax | | **–** | **67.3** | **67.3** | **3.2** | **70.5** |
| Other comprehensive (loss)/income | | **(3.4)** | **1.1** | **(2.3)** | **–** | **(2.3)** |
| Total comprehensive income for the year | | **(3.4)** | **68.4** | **65.0** | **3.2** | **68.2** |
| Non-controlling interests on acquisition of subsidiaries | | **–** | **–** | **–** | **4.7** | **4.7** |
| Transactions with non-controlling interests | | **(3.6)** | **1.1** | **(2.5)** | **(4.9)** | **(7.4)** |
| Dividends provided for or paid | | **–** | **–** | **–** | **(0.7)** | **(0.7)** |
| Transfer between reserves and retained earnings | | **(0.5)** | **0.5** | **–** | **–** | **–** |
| **Balance at 30 June 2018** | 21 | **108.9** | **1,584.3** | **1,693.2** | **7.6** | **1,700.8** |

The above consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

# Notes to the Financial Statements
30 June 2018

## Working Capital Management

### 1. Cash and Cash Equivalents

| | 2018 $m | 2017 $m |
|---|---|---|
| Cash at bank and on hand | **54.4** | 61.8 |

Cash at bank earns interest at floating rates based on daily bank deposit rates. The Group has a combined net bank overdraft facility of $5.5 million (2017: $5.6 million). After adjusting for cash balances and unpresented cheques the Group net bank overdraft amounted to $nil (2017: $nil).

#### (a) Reconciliation of Net Cash Inflow Provided by Operating Activities to Net Profit After Income Tax

| | 2018 $m | 2017 $m |
|---|---|---|
| Net profit after income tax | **70.5** | 41.2 |
| | | |
| Add/(less) items classified as investing/financing activities: | | |
| Share of profit of equity accounted investments (net of dividends) | **(47.2)** | (8.7) |
| Gain from business disposal | **(13.4)** | – |
| Net profit on sale of plant and equipment | **(0.6)** | (2.9) |
| Trust distributions received | **(27.9)** | (30.0) |
| Discount on business acquisition | **(0.3)** | – |
| | | |
| Add/(less) non-cash items: | | |
| Depreciation and amortisation | **50.8** | 43.7 |
| Provision for doubtful debts | **0.7** | 1.4 |
| Amortisation of loan and lease receivables | **2.2** | 1.7 |
| Superannuation – defined benefit expense | **0.8** | 1.7 |
| Fair value adjustments to assets | **(24.0)** | (1.6) |
| Impairment of assets (net of reversal) | **45.8** | 51.3 |
| Write off of assets | **0.3** | 1.7 |
| Provision for property development | **(9.5)** | (6.0) |
| Dividends provided/paid | **(1.3)** | (0.8) |
| | | |
| Changes in operating assets and liabilities: | | |
| Increase in receivables | **(8.9)** | (95.0) |
| (Increase)/decrease in inventories | **(1.5)** | 0.1 |
| (Decrease)/increase in prepayments and accrued income | **7.2** | (4.6) |
| (Decrease)/increase in payables | **(14.4)** | 10.9 |
| (Decrease)/increase in unearned income | **(7.9)** | 3.6 |
| Decrease in provisions | **(0.3)** | (3.7) |
| Decrease in net deferred tax balances | **21.1** | 2.5 |
| **Net cash provided by operating activities** | **42.2** | 6.5 |

#### (b) Changes in Liabilities Arising from Financing Activities

| | Subscription agreements $m | Secured notes $m | Finance lease liabilities $m | Funding facility $m | Total $m |
|---|---|---|---|---|---|
| Opening balance 1 July 2017 | **158.0** | **196.3** | **–** | **–** | **354.3** |
| Cash flows | **(6.5)** | **3.9** | **3.0** | **(0.4)** | **–** |
| Acquisition | **–** | **–** | **23.6** | **0.4** | **24.0** |
| Closing balance 30 June 2018 | **151.5** | **200.2** | **26.6** | **–** | **378.3** |

## 2. Receivables

| | 2018 $m | 2017 $m |
|---|---|---|
| **Current** | | |
| Loan receivables | **98.2** | 84.7 |
| Lease receivables | **29.6** | 34.6 |
| Trade receivables | **22.7** | 19.4 |
| | **150.2** | 138.7 |
| Provision for doubtful debts | **(1.3)** | (0.9) |
| | **149.2** | 137.8 |
| Other receivables | **3.7** | 2.9 |
| | **152.9** | 140.7 |
| **Non-current** | | |
| Loan receivables | **246.0** | 225.1 |
| Lease receivables | **59.0** | 82.7 |
| | **305.0** | 307.8 |
| Provision for doubtful debts | **(1.1)** | (1.1) |
| | **303.9** | 306.7 |

### (a) Movement in Provision for Doubtful Debts

| | Loan and lease receivables $m | Trade receivables $m | Total $m |
|---|---|---|---|
| **2018** | | | |
| Opening balance | **1.8** | **0.2** | **2.0** |
| Assets from business acquisition | **–** | **0.4** | **0.4** |
| Provision raised during the year | **0.5** | **0.2** | **0.7** |
| Bad debts written off during the year | **(0.6)** | **(0.1)** | **(0.7)** |
| Closing balance | **1.7** | **0.7** | **2.4** |
| **2017** | | | |
| Opening balance | 1.2 | 0.1 | 1.3 |
| Provision raised during the year | 1.1 | 0.3 | 1.4 |
| Bad debts written off during the year | (0.5) | (0.2) | (0.7) |
| Closing balance | 1.8 | 0.2 | 2.0 |

Refer note 9(a) for information on non-current assets pledged as security by R.A.C.V. Finance Limited.

### (b) Accounting Estimates, Assumptions and Judgements: Provision for Impairment of Loan and Lease Receivables

Loan and lease receivables are carried at amortised cost less a provision for impairment. The provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. In calculating the provision for impairment, the Group has assumed that the historical loss experience, including loss rates and loss events such as default payments, arrears and dishonour payments are applicable to the current portfolio. To mitigate the estimation uncertainty, the historical loss rates are updated and the loss events are reviewed at each reporting period. In addition, all loans and leases are subject to regular management review.

## 3. Trade and Other Payables

| | 2018 $m | 2017 $m |
|---|---|---|
| **Current** | | |
| Trade payables | **67.1** | 86.3 |
| Other payables | **8.6** | 10.4 |
| | **75.7** | 96.7 |

# Other Assets and Liabilities

## 4. Property, Plant and Equipment

| | Freehold land and improvements $m | Buildings $m | Plant and equipment $m | In course of construction* $m | Total $m |
|---|---|---|---|---|---|
| **2018** | | | | | |
| **Year ended 30 June 2018** | | | | | |
| Opening net book amount | **195.8** | **430.2** | **41.5** | **61.4** | **728.9** |
| Assets from business acquisition | **–** | **–** | **18.0** | **–** | **18.0** |
| Additions | **0.4** | **3.9** | **5.9** | **69.7** | **79.9** |
| Disposals | **(0.4)** | **(0.7)** | **(0.7)** | **–** | **(1.8)** |
| Transfers | **0.8** | **115.3** | **15.1** | **(125.7)** | **5.5** |
| Revaluation decrement | **(1.4)** | **(11.3)** | **–** | **–** | **(12.7)** |
| Impairment | **–** | **(20.2)** | **–** | **–** | **(20.2)** |
| Depreciation | **(1.3)** | **(15.6)** | **(13.1)** | **–** | **(30.0)** |
| Closing net book amount | **193.9** | **501.6** | **66.7** | **5.4** | **767.6** |
| **At 30 June 2018** | | | | | |
| Cost or fair value | **198.2** | **561.5** | **139.5** | **5.4** | **904.6** |
| Accumulated depreciation and impairment | **(4.3)** | **(59.9)** | **(72.8)** | **–** | **(137.0)** |
| Net book amount | **193.9** | **501.6** | **66.7** | **5.4** | **767.6** |
| **2017** | | | | | |
| **Year ended 30 June 2017** | | | | | |
| Opening net book amount | 146.3 | 408.9 | 44.9 | 17.0 | 617.1 |
| Additions | 0.2 | 2.6 | 5.9 | 91.3 | 100.0 |
| Disposals | (2.2) | (0.3) | (1.2) | – | (3.7) |
| Transfers | (5.6) | 16.1 | 1.5 | (12.0) | – |
| Revaluation increment | 58.3 | 15.1 | – | – | 73.4 |
| Reversal of impairment/(impairment) | – | 2.3 | (0.2) | (34.9) | (32.8) |
| Depreciation | (1.2) | (14.5) | (9.4) | – | (25.1) |
| Closing net book amount | 195.8 | 430.2 | 41.5 | 61.4 | 728.9 |
| **At 30 June 2017** | | | | | |
| Cost or fair value | 199.0 | 467.1 | 107.7 | 61.4 | 835.2 |
| Accumulated depreciation and impairment | (3.2) | (36.9) | (66.2) | – | (106.3) |
| Net book amount | 195.8 | 430.2 | 41.5 | 61.4 | 728.9 |

* The carrying amount of in course of construction assets in 2017 includes capital costs associated with Cape Schanck Resort redevelopment and the office relocation project.

# Notes to the Financial Statements continued

## 4. Property, Plant and Equipment continued

### (a) Valuations of Land and Buildings

The basis of the valuation of land and buildings is fair value, being the price for which the properties could be sold in an orderly transaction between market participants at the measurement date. Information about the valuation of land and buildings is provided in note 11(b).

### (b) Carrying amounts that would have been recognised if Land and Buildings were stated at cost

If freehold land and buildings were stated on the historical cost basis, the amounts would be as follows:

| | 2018 $m | 2017 $m |
|---|---|---|
| **Freehold land and improvements** | | |
| Cost | **146.8** | 146.3 |
| Accumulated depreciation | **(12.0)** | (9.9) |
| Net book amount | **134.8** | 136.4 |
| | | |
| **Buildings** | | |
| Cost | **564.3** | 535.6 |
| Accumulated depreciation | **(146.0)** | (130.2) |
| Net book amount | **418.3** | 405.4 |

## 5. Intangible Assets

| | Goodwill* $m | Customer contracts* $m | Software** $m | Software in development $m | Total $m |
|---|---|---|---|---|---|
| **2018** | | | | | |
| **Year ended 30 June 2018** | | | | | |
| Opening net book amount | **11.6** | **7.4** | **62.4** | **23.5** | **104.9** |
| Assets from business acquisition | **21.1** | **8.2** | **–** | **–** | **29.3** |
| Additions | **–** | **–** | **6.0** | **20.6** | **26.6** |
| Disposal | **(10.6)** | **(7.4)** | **(1.6)** | **–** | **(19.6)** |
| Transfers | **–** | **–** | **18.9** | **(19.3)** | **(0.4)** |
| Impairment | **–** | **–** | **(25.6)** | **–** | **(25.6)** |
| Amortisation | **–** | **(0.7)** | **(20.1)** | **–** | **(20.8)** |
| Closing net book amount | **22.1** | **7.5** | **40.0** | **24.8** | **94.4** |
| **At 30 June 2018** | | | | | |
| Cost | **22.1** | **8.3** | **185.7** | **24.8** | **240.9** |
| Accumulated amortisation and impairment | **–** | **(0.8)** | **(145.7)** | **–** | **(146.5)** |
| Net book amount | **22.1** | **7.5** | **40.0** | **24.8** | **94.4** |
| **2017** | | | | | |
| **Year ended 30 June 2017** | | | | | |
| Opening net book amount | 11.6 | 7.8 | 90.2 | 7.7 | 117.3 |
| Additions | – | – | 1.0 | 23.9 | 24.9 |
| Disposal | – | – | (0.5) | – | (0.5) |
| Transfers | – | – | 8.4 | (8.1) | 0.3 |
| Impairment | – | (0.4) | (18.1) | – | (18.5) |
| Amortisation | – | – | (18.6) | – | (18.6) |
| Closing net book amount | 11.6 | 7.4 | 62.4 | 23.5 | 104.9 |
| **At 30 June 2017** | | | | | |
| Cost | 11.6 | 13.9 | 193.3 | 23.5 | 242.3 |
| Accumulated amortisation and impairment | – | (6.5) | (130.9) | – | (137.4) |
| Net book amount | 11.6 | 7.4 | 62.4 | 23.5 | 104.9 |

* Prior year customer contracts and goodwill were attributed to the RACV Salary Solutions business unit, which was disposed in 2018. Refer to note 18 for details on disposal. Goodwill and customer contracts in 2018 relate to new business acquisition (refer note 17 for details).

** Software includes $17.0 million (2017: $46.9 million) relating to an internally developed business system with a remaining weighted average amortisation period of 1.9 years (2017: 4.8 years). The useful life was re-assessed in line with a new digital strategy giving rise to an impairment adjustment of $25.6 million (2017: $18.1 million).

## 5. Intangible Assets continued

### Impairment Tests for Goodwill and Software in Development

A cash-generating unit (CGU) to which goodwill and software in development is allocated are allocated to the Group's CGUs identified according to business units and tested for impairment annually. For 2018, software in development is attributed to the whole Group (2017: Insurance, Membership, Motoring and Mobility business units). Goodwill is attributed to the following business units:

| | 2018 | 2017 |
|---|---|---|
| Business unit | **Nationwide** | RACV Salary Solution |
| Recoverable amount ($m) | **37.4** | 26.8 |

The recoverable amount of each CGU is determined based on value in use calculations and in some circumstances, independent assessments performed by external valuers. The value in use calculations use cash flow projections based on financial forecasts prepared by management covering a one to five year period (2017: five to seven year period).

The key assumptions used in these calculations are as follows:

| | 2018 % | 2017 % |
|---|---|---|
| Discount rate | **8.36** | 8.3 – 12.5 |
| EBITA margin | **n/a** | 8 – 11 |
| Terminal growth rate | **3** | 2.5 |

The calculations also take into account market conditions and investment market returns. These assumptions have been determined by reference to historical company experience, industry benchmarks sourced externally and publicly available data. Whenever the CGU is impaired, the carrying amounts of software in development are written down to their recoverable amount.

## 6. Investment Properties

| | 2018 $m | 2017 $m |
|---|---|---|
| Opening balance | **42.1** | 42.1 |
| Addition | **–** | 0.1 |
| Transfers | **(5.1)** | (0.3) |
| Net gain from fair value adjustments | **28.7** | 0.2 |
| Net book amount | **65.7** | 42.1 |
| **(a) Amounts recognised in the Income Statement for Investment Properties** | | |
| Rental income | **2.7** | 3.5 |
| Direct operating expenses from property that generated rental income | **(1.4)** | (1.1) |
| Fair value gain recognised in other income | **28.7** | 0.2 |
| | **30.0** | 2.6 |

### (b) Valuation Basis

The basis of the valuation of investment properties is fair value, being the price for which the properties could be sold in an orderly transaction between market participants at the measurement date. Information about the valuation of investment properties is provided in note 11(b).

## 7. Provisions

| | Employee benefits $m | Property development* $m | Other $m | Total $m |
|---|---|---|---|---|
| **2018** | | | | |
| Opening balance | **43.6** | **9.5** | **7.0** | **60.1** |
| Additional provisions recognised | **14.8** | **–** | **2.3** | **17.1** |
| Payments/provision of economic benefits | **(15.4)** | **(9.5)** | **(1.3)** | **(26.2)** |
| Closing balance | **43.0** | **–** | **8.0** | **51.0** |
| | | | | |
| Current 2018 | **32.8** | **–** | **7.3** | **40.1** |
| Non-current 2018 | **10.2** | **–** | **0.7** | **10.9** |
| | **43.0** | **–** | **8.0** | **51.0** |
| | | | | |
| Current 2017 | 37.4 | 9.5 | 6.3 | 53.2 |
| Non-current 2017 | 6.2 | – | 0.7 | 6.9 |
| | 43.6 | 9.5 | 7.0 | 60.1 |

* In 2017, the provision was made for the estimated loss on the development of the RACV Cape Schanck Resort contracts whereby the unavoidable costs of meeting the future obligations under these contracts exceed the economic benefit expected to be received. The development has been completed in 2018.

## Financial Instruments and Risk Management

### 8. Available for Sale Financial Assets

| | 2018 $m | 2017 $m |
|---|---|---|
| **Current** | | |
| Unit trusts – unlisted | **41.2** | 121.5 |
| Contingent consideration from business disposal (refer note 18) | **6.6** | – |
| | **47.8** | 121.5 |
| | | |
| **Non-current** | | |
| Unit trusts – unlisted | **454.7** | 427.2 |

### Accounting Estimates, Assumptions and Judgements: Estimate of Impairment Revaluation Charge on Available for Sale Financial Assets

The Group assesses annually whether there is objective evidence, as a result of past events, that an available for sale financial asset or group of available for sale financial assets is impaired. An equity investment is impaired if it has been below its cost for a minimum of 12 months or if the market value of the investment is more than 30 per cent below its accounting cost.

## 9. Interest Bearing Liabilities

| | 2018 $m | 2017 $m |
|---|---|---|
| **Current** | | |
| Secured notes | **161.6** | 147.7 |
| Subscription agreement | **151.5** | – |
| Finance lease liabilities | **5.7** | – |
| | **318.8** | 147.7 |
| **Non-current** | | |
| Secured notes | **38.6** | 48.6 |
| Subscription agreement | **–** | 158.0 |
| Finance lease liabilities | **20.9** | – |
| | **59.5** | 206.6 |

### (a) Secured Notes

Secured notes are issued at a fixed rate for periods between six months and four years. Secured notes are initially recorded at their fair value and subsequently measured at amortised cost. Interest expense is recognised using the effective interest method and is payable on a quarterly, six monthly or annual basis depending upon the notes selected.

Secured notes are secured by a first floating charge over the assets of R.A.C.V. Finance Limited under a Debenture Stock and Unsecured Notes Supplemental and Consolidated Trust Deed ('Trust Deed') dated 4 May 2000. On 9 June 2015, the Trust Company (Australia) Limited replaced the original Trustee under and for the purpose of the Trust Deed. All other terms of the Trust Deed remain unchanged.

R.A.C.V. Finance Limited assets pledged as security are as follows:

| | 2018 $m | 2017 $m |
|---|---|---|
| **Floating charge** | | |
| Cash assets | **2.0** | 2.3 |
| Receivables – current | **128.4** | 124.0 |
| Receivables – non-current | **302.8** | 301.3 |
| Intangibles | **0.1** | 0.5 |
| Other assets | **0.3** | 0.2 |
| Total R.A.C.V. Finance Limited assets pledged as security | **433.6** | 428.3 |

Under the terms of the Trust Deed, R.A.C.V. Finance Limited may in certain circumstances give charges over its assets wherever situated, ranking equally with or in priority to the security constituted by the charges under the Trust Deed, subject to borrowing limits which require:

(i) secured liabilities to not exceed 85 per cent of the tangible assets of R.A.C.V. Finance Limited and any guarantor bodies;

(ii) prior secured liabilities to not exceed 10 per cent of the tangible assets of R.A.C.V. Finance Limited and any guarantor bodies; and

(iii) external liabilities to not exceed 93.75 per cent of the tangible assets of R.A.C.V. Finance Limited and any guarantor bodies.

R.A.C.V. Finance Limited has a commitment from RACV Limited for an increase in its capital base by $10 million should the secured liabilities to tangible assets ratio reach 83.5 per cent.

### (b) Subscription Agreement

The subscription agreement is a secured borrowing facility carried at amortised cost and bears interest at market rates.

On 10 April 2018, an existing facility with the National Australia Bank (NAB) was renewed with a Fifth Amendment Deed to extend the term of the facility for a period of six months. The facility can be drawn for periods up to six calendar months and expires on 31 March 2019.

As at 30 June 2018, $151.5 million of the $180 million facility was drawn (2017: $158 million of the $180 million facility was drawn). This facility has been secured by secured notes. The individual drawdown amounts bear fixed interest rates with rollover dates and interest rates as shown below:

| June 2018 | | | June 2017 | | |
|---|---|---|---|---|---|
| **Principal amount $m** | **Interest rate (payable at rollover) % p.a.** | **Rollover date** | **Principal amount $m** | **Interest rate (payable at rollover) % p.a.** | **Rollover date** |
| **10.0** | **2.63** | **10 July 2018** | 8.5 | 2.47 | 10 July 2017 |
| **119.5** | **2.54** | **23 July 2018** | 1.5 | 2.47 | 10 July 2017 |
| **7.0** | **2.72** | **31 August 2018** | 111.9 | 2.46 | 31 July 2017 |
| **15.0** | **2.63** | **31 August 2018** | 11.6 | 2.46 | 31 July 2017 |
| | | | 22.5 | 2.42 | 4 September 2017 |
| | | | 2.0 | 2.42 | 4 September 2017 |

Under the NAB subscription agreement, R.A.C.V. Finance Limited has a financial undertaking to ensure that its gearing ratio is less than or equal to 0.85 times. This ratio is calculated as interest bearing liabilities divided by interest bearing liabilities plus equity. The gearing ratio as at 30 June 2018 was 0.83 times (2017: 0.84 times). The Company was in compliance with its capital requirements throughout the whole financial year.

### (c) Finance Lease Liabilities

| | **2018 $m** | **2017 $m** |
|---|---|---|
| The Group leases various equipment under finance leases expiring within one to seven years. These leases have varying terms and renewal rights. | | |
| Commitments in relation to finance leases are payable as follows: | | |
| Due not later than one year | **6.8** | – |
| Due later than one but not later than five years | **20.5** | – |
| Due later than five years | **2.4** | – |
| | **29.7** | – |
| The present value of finance lease liabilities is as follows: | | |
| Due not later than one year | **5.7** | – |
| Due later than one year and not later than five years | **18.6** | – |
| Due later than five years | **2.3** | – |
| | **26.6** | – |

## 10. Financial Risk Management

The Group holds the following financial instruments:

| | Notes | 2018 $m | 2017 $m |
|---|---|---|---|
| **Financial assets** | | | |
| Cash and cash equivalents | 1 | **54.4** | 61.8 |
| Trade and other receivables | 2 | **25.7** | 22.1 |
| Loan receivables | 2 | **342.8** | 308.2 |
| Lease receivables | 2 | **88.4** | 117.1 |
| Finance lease receivables | 2 | **12.7** | – |
| Available for sale financial assets | 8 | **502.5** | 548.7 |
| | | **1,026.5** | 1,057.9 |
| **Financial liabilities** | | | |
| Trade and other payables | 3 | **75.7** | 96.7 |
| Secured notes | 9 | **200.2** | 196.3 |
| Subscription agreement | 9 | **151.5** | 158.0 |
| Finance lease liabilities | 9 | **26.6** | – |
| | | **454.0** | 451.0 |

The Group's activities expose it to a variety of financial risks such as credit risk, liquidity risk and market risk. The Group's overall risk management program seeks to minimise potential adverse effects on the financial performance of the Group. Risk management is carried out by the Group's management under policies approved by the Board of Directors. The Group uses different methods to measure different types of risk to which it is exposed. These methods include monthly cash flow projections for liquidity risk and ageing analysis for credit risk.

### (a) Credit Risk

The maximum exposure to credit risk on financial assets of the Group is the carrying amount of those assets as indicated in the Balance Sheet. Credit risk arises from cash and cash equivalents, receivables and committed transactions. Cash and cash equivalents are held with independently rated banks with a minimum rating of 'A' (2017: 'A'). In relation to receivables, which consist largely of loans and leases, the Group manages credit risk by ensuring the portfolio is well diversified across a large number of customers.

Credit risk also arises in relation to financial guarantees given to certain parties (refer note 10(a)(iii)). Such guarantees are only provided in exceptional circumstances and are subject to specific Board approval. Trade and other receivables are well diversified across a large number of customers and do not expose the Group to significant credit risk. Credit risk exposures relating to loans, leases and financial guarantees are disclosed below in more detail.

The Group's material risks are disclosed below:

### (i) Credit Risk in relation to Loan and Lease Receivables

Credit risk is managed by using a prudent risk assessment process for all customers with the intention of seeking minimum exposure at all times and assessing the borrower's capacity to repay the loan or lease. Credit risk is assessed similarly for each loan or lease based on the borrower's credit worthiness, credit history and the collateral being provided. Internal policies provide guidance on the acceptable mix of risk categories associated with the receivables portfolio.

#### *Collateral held as Security and Other Credit Enhancements*

Credit risk on loan and lease receivables is mitigated by obtaining security over the underlying asset.

The majority of consumer loan receivables are secured with a motor vehicle and the security registered on the Personal Property Security Register. The vehicle can be repossessed if the counterparty is in default under the terms of agreement. Where there is a shortfall in security held over the motor vehicle, a caveat may be placed over real estate property of the borrower or treated as unsecured.

For novated lease agreements and business loans (goods mortgage and commercial hire purchase agreements), the motor vehicle remains the property of the Group until all payments and the residual are repaid.

The following table shows the extent to which mortgage over motor vehicles (for consumer loans) and ownership of property (for novated leases and business loans) mitigate credit risk:

| | Maximum exposure to credit risk $m | Market value* of collateral held at reporting date $m | Secured % |
|---|---|---|---|
| **June 2018** | | | |
| Loan receivables | **344.2** | **289.2** | **84** |
| Lease receivables | **88.6** | **75.9** | **86** |
| | | | |
| **June 2017** | | | |
| Loan receivables | 309.8 | 254.5 | 82 |
| Lease receivables | 117.3 | 97.8 | 83 |

* Value of motor vehicles as quoted in the Glass's Guide vehicle pricing guide.

All loans 61 days overdue are issued with a default notice and reported to the Credit Reporting Agency. Steps are taken to repossess the collateral if the overdue payment is not made within 35 days of the notice. Repossessed collateral is sold at a public auction. The carrying amount of repossessed vehicles as at 30 June 2018, representing the foreclosed collateral obtained through the enforcement of security was $146,500 (2017: $60,000).

Customers are also offered Credit Protection Insurance which covers loan repayments if customers are unable to meet payment commitments because of illness, injury or unemployment.

### *Concentrations of Credit Risk in relation to Loan and Lease Receivables*

The Group minimises concentrations of credit risk in relation to loan receivables by diversification across a large number of customers. A prudent risk assessment process for all customers is used to manage the credit risk on loan receivables.

Concentration of risk on leases and commercial hire purchases is minimised by the spread of transactions with a large number of customers. Credit risk is minimised through prudent assessment policies and ensuring final balloon repayment amounts are in line with estimated asset values at the end of the repayment term.

The categories of credit risk exposure and the maximum exposure for each concentration are as follows:

| Category | 2018 % | 2017 % | 2018 $m | 2017 $m |
|---|---|---|---|---|
| Secured loans | **79** | 73 | **343.7** | 309.1 |
| Unsecured loans | **–** | – | **0.5** | 0.6 |
| Leases | **21** | 27 | **88.5** | 117.3 |
| Total receivables | **100** | 100 | **432.7** | 427.0 |

## (ii) Credit Quality

The level of risk associated with a loan or lease receivable is indicated by its credit quality. The prudent risk assessment process discussed previously assesses the risk associated with a loan or lease receivable. The following information shows the risk profile of loan and lease receivables that are neither past due nor impaired at reporting date and loan and lease receivables that are past due but not impaired at reporting date.

### *Loan and Lease Receivables neither past due nor impaired*

The lower risk loans relate to customers with good credit history, capacity to repay the loan and sufficient collateral to minimise exposure. The high-risk loans relate to customers who have had a poor credit history but are now considered to have the capacity to repay the loan. The lower risk loans make up 99 per cent of the portfolio (2017: 98 per cent).

Since the launch of the lease product, losses of less than 1 per cent of the portfolio have occurred to date (2017: less than 1 per cent). As at 30 June 2018, 0.9 per cent of the portfolio is in arrears (2017: 0.4 per cent).

## 10. Financial Risk Management continued

### (a) Credit Risk continued

### (ii) Credit Quality continued

*Loan and Leases Receivables past due but not impaired*

As at 30 June 2018, loan receivables of $0.5 million (2017: $0.5 million) and lease receivables of $0.8 million (2017: $0.4 million) were past due but not impaired. The ageing analysis of payments in arrears on these loan receivables is as follows:

| | Loans | | Leases | |
|---|---|---|---|---|
| | 2018 $m | 2017 $m | 2018 $m | 2017 $m |
| Up to one month | **0.2** | 0.1 | **0.4** | 0.2 |
| Longer than one month and not longer than three months | **0.1** | 0.1 | **0.2** | 0.2 |
| Longer than three months | **0.2** | 0.3 | **0.1** | – |
| | **0.5** | 0.5 | **0.7** | 0.4 |

### (iii) Financial Guarantees

Cross guarantees are given by RACV and each of its wholly owned subsidiaries within the Closed Group as described in note 24. No deficiencies of assets exist in the Closed Group. No liability was recognised by the Group in respect of these guarantees.

### (b) Liquidity Risk

Liquidity risk is the risk that the financial obligations of the Company cannot be met as and when they fall due without incurring significant costs. The Group manages liquidity risk by continuously monitoring of budget and actual cash flows and reporting liquidity projections to the Board. The Group monitors its liquidity position on a monthly basis with the aim of maintaining a liquidity target between 0.3 and 0.6 of one month's operating expenses (2017: between 0.3 and 0.6 of one month's operating expenses). The average liquidity position for the Group was 0.4 months (2017: 0.5 months). Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

*Financing Arrangements*

The Group had access to the following net undrawn borrowing facilities at the reporting date:

| | 2018 $m | 2017 $m |
|---|---|---|
| Floating rate | | |
| Expiring within one year (bank overdraft) | **5.5** | 5.6 |
| Expiring within one year (subscription agreement) | **28.5** | – |
| Expiring within two years (subscription agreement) | **–** | 22.0 |
| | **34.0** | 27.6 |

*Maturities of Financial Liabilities*

The table below analyses the Group's financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Up to 1 month $m | 1 year or less $m | Over 1 to 5 years $m | Total contractual cash flows $m | Carrying amount $m |
|---|---|---|---|---|---|
| **June 2018** | | | | | |
| Non-interest bearing | **75.7** | **–** | **–** | **75.7** | **75.7** |
| Fixed interest rate | **149.3** | **170.6** | **59.0** | **378.9** | **378.8** |
| | **225.0** | **170.6** | **59.0** | **454.6** | **454.5** |
| **June 2017** | | | | | |
| Non-interest bearing | 96.7 | – | – | 96.7 | 96.7 |
| Fixed interest rate | 145.4 | 160.3 | 48.6 | 354.3 | 354.3 |
| | 242.1 | 160.3 | 48.6 | 451.0 | 451.0 |

## (c) Market Risk

### (i) Price Risk

The Group is exposed to unit trust price risk. This arises from investments held by the Group and classified as available for sale financial assets. The Group diversifies its portfolio to manage its price risk arising from investments in unit trusts. Diversification of the portfolio is done in accordance with the limits set by the Group.

Where the fair value of an investment would not be significantly below cost or cost less any impairment loss, no impairment loss would be recognised in the Income Statement as a result of the decrease in the market price.

The following table summarises the impact of increases/decreases in market price on the Group's post-tax profit and on equity. The analysis is based on the assumption that the market price of all investments within a specified asset class has moved by the same percentage with all other variables held constant.

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Change in value %** | **Impact on post-tax profit $m** | **Impact on other components of equity $m** | **Change in value %** | **Impact on post-tax profit $m** | **Impact on other components of equity $m** |
| **Asset class** | | | | | | |
| Australian equities | **-/+8.1** | **–** | **-/+8.0** | -/+8.1 | – | -/+7.4 |
| Global equities | **-/+8.7** | **–** | **-/+12.5** | -/+8.7 | – | -/+13.6 |
| Australian bonds | **-/+2.2** | **–** | **-/+0.6** | -/+2.2 | – | -/+1.0 |
| Absolute return bonds | **-/+4.4** | **–** | **-/+1.2** | -/+4.4 | – | -/+1.8 |
| Global bonds | **-/+1.7** | **–** | **-/+0.2** | -/+1.7 | – | -/+0.3 |
| Alternatives | **-/+5.5** | **–** | **-/+5.0** | -/+5.5 | – | -/+4.5 |
| Cash | **-/+ 0.0** | **–** | **–** | -/+ 0.0 | – | – |

### (ii) Interest Rate Risk

Interest rate risk is the risk to the Group's earnings and capital arising from changes in market interest rates. The Group's interest rate risk exposure results primarily from repricing risk or differences in the repricing characteristics of its financial assets and liabilities. An instrument's repricing period is a term used to describe how an interest rate sensitive instrument responds to changes in interest rates. It refers to the time it takes an instrument's interest rate to reflect a change in market interest rates. For fixed rate instruments, the repricing period is equal to the maturity of the instrument's principal, because the principal is considered to reprice only when reinvested in a new instrument. For floating rate instruments, the repricing period is the period of time before interest rates adjust to the market value.

The Group's financial assets consist primarily of cash, available for sale financial assets, fixed rate loan receivables with maturities ranging from 12 to 84 months and fixed rate lease receivables with maturities ranging from six to 84 months.

The financial liabilities funding these receivables consist primarily of fixed rate secured notes with maturities ranging from six to 48 months and fixed rate borrowings on the subscription agreement with maturities up to 180 days that renew automatically at the option of the Group during the term of the subscription agreement.

Due to the mismatch in the maturities of its receivables and the financial liabilities funding these receivables, the Group is exposed to repricing risk. The impact on equity and pre-tax profit of reasonably possible changes in the interest rate over the next 12 months (between -/+ 0 and 11 basis points), with all other variables held constant is -/+ $0.2 million (2017:-/+ $0.1 million).

## 11. Fair Value Measurement

### (a) Fair Value Hierarchy

To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its assets and liabilities into levels of the following fair value measurement hierarchy:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

#### (i) Recognised Fair Value Measurements

The following table presents the Group's assets measured and recognised at fair value at 30 June 2018.

| | Notes | Level 2 $m | Level 3 $m | Total $m |
|---|---|---|---|---|
| **June 2018** | | | | |
| **Assets** | | | | |
| Unit trusts – unlisted | 8 | **495.9** | **–** | **495.9** |
| Contingent consideration | 8 | **–** | **6.6** | **6.6** |
| Land and buildings | 4 | **–** | **695.5** | **695.5** |
| Investment properties | 6 | **–** | **65.7** | **65.7** |
| | | **495.9** | **767.8** | **1,263.7** |
| **June 2017** | | | | |
| **Assets** | | | | |
| Unit trusts – unlisted | 8 | 548.7 | – | 548.7 |
| Land and buildings | 4 | – | 626.0 | 626.0 |
| Investment properties | 6 | – | 42.1 | 42.1 |
| | | 548.7 | 668.1 | 1,216.8 |

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

#### (ii) Disclosed Fair Values

The Group also has the following assets and liabilities which are not measured at fair value but for which fair values are disclosed in the notes:

- the carrying amount of loan and lease receivables, secured notes and subscription agreement approximates their fair value as the impact of discounting is not significant; and
- the carrying amount of trade receivables and payables approximates their fair value due to their short term nature.

### (b) Valuation Techniques and Inputs used to derive Level 2 and Level 3 Fair Values

The fair value of unlisted unit trusts are based on exit price which is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Quoted market prices of the underlying instruments are used to estimate fair value of all unlisted unit trusts (2017: all unlisted unit trusts ). The fair value of contingent consideration is based on expected cash flows (refer to note 18 for more details).

The fair value of land and buildings and investment properties are based on independent assessments made by members of the Australian Property Institute. The Group obtains independent valuations for each property on a rolling basis at least every five years. The most recent external valuations of selected land and buildings were made as at 28 February 2018 (2017: 28 February 2017). The most recent external valuations of selected investment properties were made as at 28 February 2018 (2017: 29 February 2016).

The discount rate applied is based on investors' current return expectations. The resulting valuations are compared to current sales prices in an active market for similar properties in the same location and condition. The fair value of loans from external entities is calculated as the present value of the estimated future cash flows.

### (c) Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

The following table presents changes in level 3 recurring fair value measurements:

| | Contingent consideration $m | Land and buildings $m | Investment properties $m | Total $m |
|---|---|---|---|---|
| **June 2018** | | | | |
| Opening balance 1 July 2017 | – | 626.0 | 42.1 | 668.1 |
| Additions | 7.0 | 4.3 | – | 11.3 |
| Disposals | – | (1.1) | – | (1.1) |
| Transfers | – | 116.1 | (5.1) | 111.0 |
| Depreciation and impairment | – | (37.1) | – | (37.1) |
| Revaluation (decrement)/increment | (0.4) | (12.7) | 28.7 | 15.6 |
| Closing balance 30 June 2018 | 6.6 | 695.5 | 65.7 | 767.8 |
| Total loss for the period recognised in the consolidated Income Statement in impairment of property, plant and equipment* | – | (20.2) | – | (20.2) |
| Total gain for the period recognised in the consolidated Statement of Comprehensive Income | – | 8.0 | – | 8.0 |

| | Land and buildings $m | Investment properties $m | Total $m |
|---|---|---|---|
| **June 2017** | | | |
| Opening balance 1 July 2016 | 555.2 | 42.1 | 597.3 |
| Additions | 2.8 | 0.1 | 2.9 |
| Disposals | (2.5) | – | (2.5) |
| Transfers | 10.5 | (0.3) | 10.2 |
| Depreciation and impairment | (13.4) | – | (13.4) |
| Revaluation increment | 73.4 | 0.2 | 73.6 |
| Closing balance 30 June 2017 | 626.0 | 42.1 | 668.1 |
| Total loss for the period recognised in the consolidated Income Statement in impairment of property, plant and equipment* | (26.8) | – | (26.8) |
| Total loss for the period recognised in the consolidated Statement of Comprehensive Income | (72.0) | – | (72.0) |

* Represents unrealised gain/(loss) recognised in the consolidated Income Statement attributable to assets held at the end of the reporting period.

### (d) Valuation Processes

Information about the valuation of land and buildings and investment properties are provided in note 11(b). Where land and buildings and investment properties are not externally valued in a given year, fair value is re-assessed by considering factors such as significant changes to the property, material changes to the local conditions and major macro-economic shocks. Valuation outcomes are reported to the Audit and Compliance Committee at least annually.

Contingent consideration is valued based on the assessment of the contractual sale conditions as at 30 June 2018.

# Notes to the Financial Statements continued

## Taxation

### 12. Income Tax Expense

| | 2018 $m | 2017 $m |
|---|---|---|
| **(a) Income Tax** | | |
| Current tax expense | **(4.0)** | (3.4) |
| Deferred tax expense (refer note 13) | **(22.9)** | (2.6) |
| Over/(under) provided in prior years | **0.1** | (0.8) |
| Income tax expense | **(26.8)** | (6.8) |
| **(b) Reconciliation of Prima Facie Income Tax** | | |
| The assessable income of RACV 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 expense and statutory deductions. | | |
| The prima facie tax on operating profit differs from the income tax provided in the accounts as follows: | | |
| Profit before income tax | **97.3** | 48.0 |
| The prima facie tax expense on operating profit before income tax @ 30 per cent | **(29.2)** | (14.4) |
| Tax effect of amounts which are not taxable/(deductible) in calculating income tax: | | |
| Over/(under) provision for tax from previous year | **0.1** | (0.8) |
| Profit/(loss) attributable to activities for the mutual benefit of members | **3.2** | (6.9) |
| Share of net profit of equity accounted investments | **25.2** | 23.3 |
| Impairment of intangibles | **–** | 1.8 |
| Sundry items | **(1.4)** | 2.0 |
| Prior years tax losses derecognised | **(24.7)** | (11.8) |
| Income tax expense attributable to operating profit | **(26.8)** | (6.8) |
| **(c) Tax Expense Relating to Items of Other Comprehensive Income** | | |
| Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to other comprehensive income: | | |
| Net deferred tax credited/(debited) directly to other comprehensive income (refer note 13) | **0.7** | (17.3) |

### (d) Tax Consolidation

RACV and its wholly owned subsidiaries are parties to a tax sharing agreement and a tax funding agreement. The tax sharing agreement, in the opinion of the directors, limits the joint and several liability of the wholly owned subsidiaries in the case of default by RACV.

Under the tax funding agreement, the wholly owned subsidiaries fully compensate RACV for any current tax payable assumed and are compensated by RACV for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to RACV under the tax consolidation legislation. The funding amounts will be determined by reference to the amounts recognised in the wholly owned subsidiaries' Financial Statements.

### (e) Income Tax Contributions

RACV continues to contribute significantly to Australia's tax base across all applicable federal and state taxes. With respect to income tax, a major component of RACV's profit comes from its investments in associates where the dividend income is received on a fully franked basis meaning income tax is paid at source. The amount of income tax paid on RACV's dividend component was $16.9 million during the financial year (2017: over $30.0 million).

## 13. Deferred Tax Assets

| | 2018 $m | 2017 $m |
|---|---|---|
| **The balance comprises temporary differences attributable to:** | | |
| *Amounts recognised in profit or loss* | | |
| Property, plant and equipment | **19.9** | 22.3 |
| Employee benefits | **7.5** | 7.3 |
| Superannuation plan | **(1.7)** | (2.0) |
| Unearned income | **3.5** | 3.9 |
| Available for sale financial assets | **4.7** | 4.6 |
| Finance leases | **(3.8)** | (3.7) |
| Intangible assets | **(0.7)** | (6.0) |
| Tax losses and credits | **29.6** | 53.9 |
| Other | **2.8** | 4.1 |
| | **61.8** | 84.4 |
| *Amounts recognised directly in other comprehensive income* | | |
| Revaluation of property | **(12.4)** | (13.5) |
| Superannuation plan | **5.9** | 6.2 |
| Available for sale financial assets | **(4.7)** | (3.0) |
| Shares in subsidiaries | **–** | (1.5) |
| | **(11.2)** | (11.8) |
| Net deferred tax assets | **50.6** | 72.6 |
| **Movements** | | |
| Opening balance | **72.6** | 93.4 |
| Under/(over) provision from prior year | **0.1** | (0.9) |
| Debited to the consolidated Income Statement | **(22.9)** | (2.6) |
| Credited/(debited) to equity | **0.7** | (17.3) |
| Deferred tax impact of business acquisition | **0.1** | – |
| Closing balance | **50.6** | 72.6 |

### (a) Accounting Estimates, Assumptions and Judgements: Income Taxes

The Group assesses the recoverability of deferred tax assets based on detailed financial forecasts. When assessing the recoverability of the deferred tax assets, the directors consider the expected profitability of non-mutual activities, prevailing economic conditions and investment return rates.

The Group has recognised deferred tax liabilities for capital gains under the Capital Gains Tax regime on unrealised tax gains that would arise on disposal of its available for sale financial assets at current tax rates. This is in accordance with the accounting policy stated in note 25(d).

In addition, the Group has recognised deferred tax assets relating to carried forward capital and tax losses to the extent there are sufficient future tax liabilities and taxable temporary differences (deferred tax liabilities) relating to the same taxation authority. However, utilisation of the tax losses also depends on the ability of the Group to satisfy certain tests at the time the losses are recouped.

If the Group fails to satisfy these tests, carried forward tax losses of $27.2 million and capital losses of $2.4 million that are currently recognised as deferred tax assets would have to be recognised as income tax expense (2017: carried forward tax losses of $43.3 million and capital losses of $10.6 million).

## Remuneration and Benefits

### 14. Key Management Personnel

Key management personnel compensation comprises:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Short-term benefits | **6,832** | 6,341 |
| Post-employment benefits | **362** | 401 |
| Long-term benefits | **920** | 834 |
| Termination benefits (contractual entitlements) | **1,245** | – |
| | **9,359** | 7,576 |

#### Key Management Personnel of the Group

The key management personnel of the Group comprise all directors of RACV and the executives having authority and responsibility for planning, directing and controlling the activities of the Group. At 30 June 2018, in addition to the 12 directors, nine executives were included as key management personnel (30 June 2017: 12 directors, seven executives).

#### Transactions with Key Management Personnel of the Wholly Owned Group

The key management personnel of RACV have normal business transactions with various controlled entities including the use of various facilities available to them as members and reimbursement of travelling expenses. These transactions include insurance, secured note investments and finance loans and leases with the wholly owned Group's finance company and minor sales of products and services. All these transactions are conducted on a commercial basis on conditions no more beneficial than those available to members or employees.

### 15. Superannuation Benefits

Upon joining the Group, new employees are able to choose whether to join the defined contribution section of the RACV Superannuation Fund (Plan) or an alternative fund. All members of the Plan are entitled to benefits on resignation, retirement, ill health, disability or death.

The Plan has both a defined benefit section and a defined contribution section. The defined benefit section provides defined benefits based on years of membership and final average salary for those members employed prior to 1 March 1998 and who elected to remain defined benefit members. The defined contribution section receives fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions for this section of the Plan.

Plan assets are held in trust which is subject to supervision by the prudential regulator. Funding levels are reviewed regularly. Where assets are less than vested benefits, being those payable upon exit, a management plan must be formed to restore the coverage to at least 100 per cent.

Responsibility for governance of the Plan, including investment decisions and plan rules rests with the Board of Trustees of the Plan. Contribution levels are also the responsibility of the trustee, although these are usually set in consultation with the employer. Disclosures for the Plan are shown below:

| | 2018 $m | 2017 $m |
|---|---|---|
| Fair value of superannuation Plan assets | **191.5** | 197.3 |
| Present value of the defined benefit obligation | **(69.9)** | (68.7) |
| Present value of the defined contribution obligation | **(135.5)** | (142.6) |
| Superannuation plan liability in the Balance Sheet | **(13.9)** | (14.0) |

| | 2018 $m | 2017 $m |
|---|---|---|
| **(a) Reconciliations** | | |
| *Movement in the present value of the defined benefit obligation:* | | |
| Opening present value | **68.7** | 74.6 |
| Current service cost | **1.5** | 1.9 |
| Interest expense | **2.1** | 2.0 |
| Actuarial loss/(gain) arising from changes in financial assumptions | **1.2** | (6.1) |
| Contributions by Plan participants | **0.2** | 0.2 |
| Benefits, administrative costs and tax paid | **(3.8)** | (3.9) |
| Closing present value | **69.9** | 68.7 |
| | | |
| *Movement in the fair value of Plan assets (including defined contribution plan):* | | |
| Opening fair value | **197.3** | 194.6 |
| Interest income | **1.7** | 1.4 |
| Actuarial return on Plan assets, less interest expense/(income) | **2.2** | 3.6 |
| Contributions by employer | **1.0** | 1.0 |
| Contributions by Plan participants | **0.2** | 0.2 |
| Benefits, administrative costs and tax paid | **(3.8)** | (3.9) |
| Movement in vested benefits in respect of defined contribution members | **(7.1)** | 0.4 |
| Closing fair value | **191.5** | 197.3 |
| | | |
| **(b) Amounts recognised in the Consolidated Income Statement** | | |
| Current service cost | **1.5** | 1.9 |
| Net interest expense | **0.4** | 0.6 |
| Total included in employee benefits expense | **1.9** | 2.5 |
| | | |
| **(c) Amounts recognised in the Consolidated Statement of Comprehensive Income** | | |
| *Remeasurements:* | | |
| Actual return on Plan assets, less interest expense/(income) | **(2.2)** | (3.6) |
| Actuarial loss/(gain) incurred during the year | **1.2** | (6.1) |
| Total amount recognised in the consolidated Statement of Comprehensive Income | **(1.0)** | (9.7) |

## Group Structure

### 16. Subsidiaries

| | Equity interest held by the consolidated entity | |
|---|---|---|
| | 2018 % | 2017 % |
| Royal Automobile Club of Victoria (RACV) Limited* | | |
| – RACV Holdings Pty. Ltd. | **100** | 100 |
| – RACV Insurance Services Pty. Ltd.* | **100** | 100 |
| – R.A.C.V. Finance Limited* | **100** | 100 |
| – RACV Investment Holdings Pty. Ltd. | **100** | 100 |
| – RACV Security Pty. Ltd. | **100** | 100 |
| – EPAC Group Pty Ltd | **100** | 100 |
| – Intelematics Australia Pty Limited* | **100** | 90 |
| – Club Tasmania Holdings Pty Ltd | **100** | 90 |
| – Club Home Response Pty Ltd* (refer note 27) | **51** | 51 |
| – Nationwide Group Pty Ltd | **51** | – |
| – Property Safe Investments Pty Limited | **100** | – |

* These controlled entities have not been granted relief from the necessity to prepare financial reports in accordance with Class Order 2016/785 issued by the Australian Securities and Investments Commission (ASIC).

** During the year, RACV acquired the remaining 10 per cent shares in Club Tasmania Holdings Pty Ltd and Intelematics Australia Pty Limited.

### 17. Business Combinations

#### (a) Summary of Acquisition

On 12 October 2017, RACV Limited acquired 51 per cent equity shares of Nationwide Group Pty Ltd, a towing service company for total consideration of $33.3 million.

On 21 December 2017, RACV Limited acquired all the issued shares of Property Safe Investments Pty Limited, a trade services company in the home area for total consideration of $5.2 million.

The acquired businesses contributed revenue of $57.5 million and operating profit of $5.5 million during the 2018 financial year. If the acquisition had occurred on 1 July 2017, the consolidated revenue and profit for the year ended 30 June 2018 would have been $68.5 million and $6.6 million, respectively. These amounts have been calculated using the Group's accounting policies.

Details of the fair value of the net assets acquired and goodwill/(discount) on business acquisition are as follows:

| | Nationwide $m | Property Safe Investment $m |
|---|---|---|
| Purchase consideration | | |
| Cash paid | 33.3 | 5.1 |
| Total purchase consideration | 33.3 | 5.1 |
| Less: Fair value of net identifiable assets acquired | (13.2) | (5.4) |
| Goodwill/(discount) on business acquisition | 20.1 | (0.3) |

## (b) Purchase consideration

| | | |
|---|---|---|
| Outflow of cash on purchase of business: | | |
| Cash consideration | 33.3 | 5.1 |
| Cash balance acquired | (0.4) | – |
| Outflow of cash | 32.9 | 5.1 |

## (c) Assets and Liabilities Acquired

| | | |
|---|---|---|
| Cash | 0.4 | – |
| Finance lease receivables | 6.0 | – |
| Receivables | 4.8 | – |
| Plant and equipment | 9.1 | – |
| Goodwill | 0.5 | – |
| Intangibles | 8.2 | – |
| Investments accounted for using the equity method | – | 6.1 |
| Other assets | 0.4 | – |
| Payables | (2.5) | (0.6) |
| Interest bearing liabilities | (13.1) | – |
| Provisions | (0.6) | – |
| | 13.2 | 5.5 |

There were no business acquisitions that occurred in the 2017 financial year.

## 18. Business Disposal

On 19 October 2017, the Group sold its salary packaging business to Advantage AccessPay Pty Ltd. The sale is effective from 20 October 2017 and reported in the current period as a business disposal.

The carrying amounts of assets and liabilities as at the date of sale were:

| | $m |
|---|---|
| Cash | 19.6 |
| Intangibles* | 20.3 |
| Payables | (19.7) |
| Employee benefits | (0.7) |
| Net assets | 19.5 |
| | |
| Consideration received and receivable: | |
| Cash | 27.0 |
| Contingent consideration** | 7.0 |
| Total disposal consideration | 34.0 |
| | |
| Cost of sale | (1.1) |
| | |
| Gain on sale before income tax | 13.4 |
| Income tax expense on gain | (4.0) |
| Gain on sale after income tax | 9.4 |

From 1 July 2017 to the date of sale, the disposed business had contributed $0.7 million loss and generated cash inflows of $3.8 million (2017: $1.0 million loss and $2.6 million cash inflows).

* Refer to note 5 for details of intangibles sold.

** Additional consideration of $7.0 million is receivable subject to retention of the key customer contracts for a period of 12 months following disposal. It has been recognised as an available for sale financial asset. A subsequent deduction of $0.4 million from the contingent consideration was included in the profit contributed by the disposed business.

## 19. Investments Accounted for using the Equity Method

### (a) Carrying amounts

All associates are measured using the equity method and have a reporting date of 30 June. The country of incorporation is also their principal place of business. The proportion of ownership interest is the same as the proportion of voting rights held.

| | | | Ownership interest | | Consolidated carrying amount | |
|---|---|---|---|---|---|---|
| **Name** | **Principal activity** | **Place of Business** | **2018 %** | **2017 %** | **2018 $m** | **2017 $m** |
| **Associates** | | | | | | |
| Insurance Manufacturers of Australia Pty Limited (IMA) | General insurance | Australia | **30** | 30 | **269.8** | 225.7 |
| Australian Motoring Services Pty Ltd (AMS) | Assistance services | Australia | **24** | 24 | **3.1** | 2.7 |
| Club Assets Pty Ltd (Club Assets) | Assistance services | Australia | **50**[1] | 50[1] | **27.2** | 22.3 |
| | | | | | **300.1** | 250.7 |
| **Joint ventures** | | | | | | |
| Intelematics North America, LLC (INA) | Telematics services | United States of America | **100**[2] | 45[2] | **–** | 1.6 |
| Intelematics Europe Limited (IEU) | Telematics services | United Kingdom | **32** | 29[3] | **–** | 0.3 |
| Property Safe Holdings Pty Ltd (Property Safe) | Property services | Australia | **32** | – | **8.2** | – |
| | | | | | **308.3** | 252.6 |

1. For the purposes of this disclosure, the 50 per cent ownership interest in Club Assets is equivalent to a beneficial 37.5 per cent (2017: 37.5 per cent) ownership interest in the net assets of the underlying investment.
2. In 2018, Intelematics Australia Pty Limited (IAU) acquired the remaining shares in INA. As a result, INA became a fully owned subsidiary of IAU. In 2017, the 45 per cent ownership interest represents RACV's share of IAU 50 per cent ownership interest in the net assets of INA.
3. In 2017, the 29 per cent ownership interest represents RACV's share of IAU 32 per cent ownership interest in the net assets of IEU.

Associates and joint ventures are strategic investments for the Group and complement the services provided by the general insurance, emergency roadside assistance and home businesses.

### (b) Movements in Carrying Amount of Investments in Associates and Joint Ventures

| | **2018 $m** | **2017 $m** |
|---|---|---|
| Opening balance | **252.6** | 243.9 |
| Increase in investment in associates and joint ventures | **7.2** | – |
| Share of profits after income tax | **83.9** | 78.0 |
| Dividend received/receivable | **(36.1)** | (69.3) |
| Changes to retained earnings | **0.7** | – |
| Closing balance | **308.3** | 252.6 |

## 19. Investments Accounted for using the Equity Method continued

### (c) Summarised Financial Information for Associates

The table below presents summarised financial information for associates that are material to the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant associates.

| | IMA | | Other associates[1] | |
|---|---|---|---|---|
| | 2018 $m | 2017 $m | 2018 $m | 2017 $m |
| **Balance Sheet** | | | | |
| Total assets | **4,136.1** | 3,791.4 | **179.2** | 166.0 |
| Total liabilities | **3,236.9** | 3,039.1 | **98.3** | 99.9 |
| **Net assets** | **899.2** | **752.3** | **80.9** | **66.1** |
| **Reconciliation to carrying amount** | | | | |
| Opening net assets 1 July | **752.3** | 724.0 | **66.1** | 77.1 |
| Profit after tax for the period | **265.3** | 256.6 | **17.4** | 11.9 |
| Other comprehensive income | **1.0** | 3.2 | **–** | – |
| Dividends paid | **(119.0)** | (231.0) | **(1.5)** | – |
| Share of reserves movement charged to retained earnings | **(0.4)** | (0.5) | **(1.1)** | (2.9) |
| Share buyback[2] | **–** | – | **–** | (20.0) |
| **Closing net assets 30 June** | **899.2** | **752.3** | **80.9** | **66.1** |
| **Group's share of closing net assets 30 June** | **269.7** | **225.7** | **30.4** | **25.0** |
| **Statement of Comprehensive Income** | | | | |
| Revenue | **3,085.2** | 2,935.4 | **195.1** | 346.1 |
| Profit after tax for the period | **265.2** | 256.6 | **17.4** | 11.9 |
| Other comprehensive income | **1.0** | 3.2 | **–** | – |
| **Total comprehensive income 30 June** | **266.2** | **259.8** | **17.4** | **11.9** |

1. Refer to note 19(a) for details of other associates.

2. In 2017, Club Assets increased its ownership interest in Club Assists Pty Ltd from 60 per cent to 75 per cent following a share buyback of $20 million.

## 20. Parent Entity Financial Information

### (a) Summary Financial Information

The individual financial statements for Royal Automobile Club of Victoria (RACV) Limited, the parent entity, show the following aggregate amounts:

| | RACV | |
|---|---|---|
| | 2018 $m | 2017 $m |
| **Profit/(loss) for the year** | **(48.8)** | **(67.1)** |
| **Total comprehensive income/(loss)** | **(55.7)** | **(12.0)** |
| **Balance Sheet** | | |
| Current assets | **484.0** | 483.6 |
| Total assets | **1,395.0** | 1,345.0 |
| Current liabilities | **978.8** | 881.1 |
| Total liabilities | **1,004.3** | 903.6 |
| **Equity** | | |
| Asset revaluation reserve | **96.3** | 104.0 |
| Retained earnings | **289.7** | 337.4 |
| **Equity attributed to members of RACV Group** | **386.0** | **441.4** |
| Non-controlling interest | **4.7** | – |
| **Total equity** | **390.7** | **441.4** |

### (b) Financial Guarantees entered into by Royal Automobile Club of Victoria (RACV) Limited

Cross guarantees are provided by RACV and each of its wholly owned subsidiaries within the Closed Group as described in note 24. No deficiencies of assets exist in the Closed Group.

R.A.C.V. Finance Limited has a commitment from RACV for an increase in its capital base by $10 million should the secured liabilities to tangible assets ratio reach 83.5 per cent as described in note 9(a). In addition, R.A.C.V. Finance Limited has a $20 million line of credit with RACV Limited to support its short term funding needs. This remains undrawn at the reporting date.

No liability was recognised by the Group or RACV in respect of these guarantees.

### (c) Contingent Liabilities of Royal Automobile Club of Victoria (RACV) Limited

RACV Limited has agreed to support various Group subsidiaries to ensure their debts are paid as and when they fall due (refer to note 24).

### (d) Contractual Commitments for the Acquisition of Property, Plant and Equipment

As at 30 June 2018, RACV Limited had contractual commitments for the acquisition of property, plant and equipment totalling $7.2 million (2017: $40.1 million). These commitments relate to Cape Schanck Resort redevelopment and member experience improvement project (2017: Cape Schanck Resort redevelopment and City Club and Royal Pines Resort development programs).

## Other Information

### 21. Members' Equity

#### (a) Members' Reserves

| | 2018 $m | 2017 $m |
|---|---|---|
| Asset revaluation reserve | **98.6** | 105.7 |
| Fair value reserve – available for sale financial assets | **10.3** | 6.9 |
| Transactions with non-controlling interests | **–** | 3.8 |
| | **108.9** | 116.4 |
| | | |
| **Movements:** | | |
| *Asset revaluation reserve* | | |
| Opening balance | **105.7** | 45.6 |
| Revaluation – gross | **(8.0)** | 72.0 |
| Deferred tax | **1.2** | (10.9) |
| Transfer to retained earnings | **(0.5)** | (1.0) |
| Transactions with non-controlling interests | **0.2** | – |
| Closing balance attributable to members of RACV Group | **98.6** | 105.7 |
| | | |
| Non-controlling interests | **–** | 0.1 |
| | | |
| *Fair value reserve – available for sale financial assets* | | |
| Opening balance | **6.9** | (1.5) |
| Revaluation – gross | **11.9** | 14.4 |
| Transfer of realised gains to net profit – gross | **(7.1)** | (2.4) |
| Deferred tax | **(1.4)** | (3.6) |
| Closing balance attributable to members of RACV Group | **10.3** | 6.9 |

#### (b) Nature and purpose of Reserves

##### Asset Revaluation Reserve

The asset revaluation reserve is used to record increments and decrements on the revaluation of properties as described in note 25(k).

##### Fair Value Reserve – Available for Sale Financial Assets

This reserve is used to record movements in the fair value of available for sale financial assets as described in note 25(h). Amounts are recognised in the Income Statement when the associated assets are sold or impaired.

##### Transactions with Non-controlling Interests

This reserve is used to record changes in the ownership interest in a subsidiary company that do not result in a loss of control.

### (c) Retained Earnings

| | 2018 $m | 2017 $m |
|---|---|---|
| Opening balance | **1,514.3** | 1,466.2 |
| Net profit attributable to members of RACV Group for the year | **67.3** | 40.3 |
| Superannuation plan remeasurements | **0.9** | 9.7 |
| Deferred tax on superannuation plan | **(0.3)** | (2.9) |
| Foreign currency translations of foreign operations | **1.0** | – |
| Deferred tax on foreign currency translations of foreign operations | **(0.3)** | – |
| Transactions with non-controlling interests | **1.1** | – |
| Transfer from reserves | **0.5** | 1.0 |
| Change in associate retained earnings | **(0.2)** | – |
| Closing balance attributable to members of RACV Group | **1,584.3** | 1,514.3 |

### (d) Capital Risk Management

The Group's objective when managing members' equity (capital) is to protect the financial viability and sustainability of the Group and to ensure sufficient funds continue to be available to deliver member services and carry out business plans and initiatives. The Group's capital management is focused on monitoring balance sheet strength and flexibility using liquidity projections (refer to note 10(b)) and detailed budgeting processes.

### (e) Membership

| | Number of members | |
|---|---|---|
| | 2018 | 2017 |
| **Membership category** | | |
| Ordinary (Club) | **27,207** | 26,891 |
| Service | **1,507,481** | 1,468,929 |
| Total voting members | **1,534,688** | 1,495,820 |
| | | |
| Relationship members | **620,975** | 606,849 |
| Associate Corporate and Honorary members | **4,069** | 3,857 |
| Total members | **2,159,732** | 2,106,526 |

RACV operates as a company limited by guarantee with the liability of any member not exceeding $6.30. The number of voting members represents the total number of members who are entitled to a vote.

In accordance with the Articles of Association, Service members and Ordinary (Club) members are entitled to vote in a Service election whilst only Ordinary (Club) members are entitled to vote in an Ordinary (Club) election. Associate Corporate and Honorary Club members and Relationship members are not entitled to a vote under the Articles.

## 22. Related Party Transactions

The Royal Automobile Club of Victoria (RACV) Limited is the ultimate controlling entity.

### (a) The Following Related Party Transactions Occurred During the Financial Year:

#### Transactions with Related Parties within the Wholly Owned Group

Administrative and other service charges are made within the Group on commercial terms and conditions. All material transactions with associate companies are made on commercial terms and conditions.

#### Transactions with other related parties

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Commission and other revenue | | |
| IMA | **101,681** | 90,678 |
| Club Assets | **3,226** | 2,503 |
| Subscription and other revenue | | |
| AMS | **9,474** | 10,158 |
| IEU | **1,790** | – |
| Superannuation expenses | | |
| RACV Superannuation Fund | **10,557** | 10,357 |
| Other expenses | | |
| Club Assets | **1,121** | – |
| IEU | **2,161** | – |
| Current receivables | | |
| IMA | **9,547** | 8,582 |
| Property Safe | **200** | – |
| Current payables | | |
| IMA | **5,803** | 4,899 |
| Club Assets | **223** | – |

### (b) Ownership Interests in Related Parties

Interests held in the following classes of related parties are set out in the following notes:

(i) Subsidiaries – note 16

(ii) Associates and joint ventures – note 19

## 23. Auditor's Remuneration

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| During the year, the following fees were paid or payable to the auditor: | | |
| PricewaterhouseCoopers | | |
| Audit and review of consolidated financial reports of RACV and the financial reports of its subsidiaries | **631** | 619 |
| Other services | **172** | 172 |
| Total remuneration | **803** | 791 |

It is RACV's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with RACV are important. These assignments are principally audit and other services, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is RACV's policy to seek competitive tenders for all major consulting projects.

## 24. Deed of Cross Guarantee

RACV and each of its wholly owned subsidiaries indicated in note 16, excluding RACV Insurance Services Pty. Ltd., R.A.C.V. Finance Limited and Property Safe Investments Pty Limited are parties to a Deed of Cross Guarantee (Deed) under which each company guarantees the debts of the others. By entering into the Deed, these wholly owned subsidiaries have been relieved from the requirement to prepare a financial report and Directors' report under Class Order 98/1418 (as amended by Class Order 98/2017) issued by ASIC.

These companies represent a 'Closed Group' for the purposes of the Class Order and, as there are no other parties to the Deed that are controlled by RACV, they also represent the 'Extended Closed Group'. Set out below is a condensed consolidated Income Statement, Statement of Comprehensive Income, summary of movements in retained earnings and a Balance Sheet of the Closed Group, after eliminating all transactions between parties to the Deed.

| | Closed Group | |
|---|---|---|
| | 2018<br>$m | 2017<br>$m |
| **Condensed Income Statement** | | |
| Profit from ordinary activities before income tax | 79.6 | 48.7 |
| Income tax expense | (21.4) | (6.6) |
| **Profit from ordinary activities after income tax** | **58.2** | **42.1** |
| | | |
| **Condensed Statement of Comprehensive Income** | | |
| Profit from ordinary activities after income tax | 58.2 | 42.1 |
| Other comprehensive (loss)/income | (2.3) | 75.7 |
| **Total comprehensive income for the year** | **55.9** | **117.8** |
| | | |
| **Movement in retained earnings** | | |
| Opening balance | 1,448.8 | 1,398.9 |
| Assumption of entities to/from the 'Closed Group' | (2.0) | – |
| Profit from ordinary activities after income tax | 58.2 | 42.1 |
| Superannuation plan actuarial remeasurements, net of tax | 0.6 | 6.8 |
| FX translations of foreign operations, net of tax | 0.7 | – |
| Transfer from reserves | 0.5 | 1.0 |
| Change in associate reserves | (0.2) | – |
| **Retained earnings at the end of the financial year** | **1,506.6** | **1,448.8** |
| | | |
| **Balance Sheet** | | |
| **Current assets** | | |
| Cash and cash equivalents | 36.1 | 37.9 |
| Receivables | 14.6 | 20.6 |
| Inventories | 4.5 | 2.9 |
| Available for sale financial assets | 47.6 | 121.5 |
| Prepayments and accruals | 20.5 | 24.0 |
| Current tax asset | 1.1 | – |
| **Total current assets** | **124.4** | **206.9** |
| | | |
| **Non-current assets** | | |
| Available for sale financial assets | 482.3 | 488.3 |
| Investments accounted for using the equity method | 300.1 | 250.7 |
| Property, plant and equipment | 747.1 | 688.5 |
| Investment properties | 65.7 | 42.1 |
| Intangible assets | 85.8 | 72.0 |
| Deferred tax assets | 53.9 | 75.8 |
| **Total non-current assets** | **1,734.9** | **1,617.4** |
| | | |
| **Total assets** | **1,859.3** | **1,824.3** |

## 24. Deed of Cross Guarantee continued

| | Closed Group | |
|---|---|---|
| | 2018 $m | 2017 $m |
| **Current liabilities** | | |
| Trade and other payables | 61.4 | 80.1 |
| Provisions | 37.2 | 50.1 |
| Unearned income | 121.0 | 110.7 |
| **Total current liabilities** | 219.6 | 240.9 |
| **Non-current liabilities** | | |
| Superannuation benefits | 13.9 | 14.0 |
| Provisions | 10.3 | 5.8 |
| **Total non-current liabilities** | 24.2 | 19.8 |
| **Total liabilities** | 243.8 | 260.7 |
| **Net assets** | 1,615.5 | 1,563.6 |
| **Members' equity** | | |
| Member reserves | 108.9 | 114.8 |
| Retained earnings | 1,506.6 | 1,448.8 |
| **Total members' equity** | 1,615.5 | 1,563.6 |

## 25. Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report is for the consolidated entity (the Group) consisting of Royal Automobile Club of Victoria (RACV) Limited ('RACV') and its subsidiaries.

### (a) Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The Group is a for-profit entity for the purpose of preparing the financial statements.

### Compliance with IFRS

The consolidated Financial Statements of the Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

### Historical Cost Convention

These consolidated Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of available for sale financial assets and liabilities, certain classes of property, plant and equipment and investment property.

### Functional and Presentation Currency

The consolidated Financial Statements are presented in Australian dollars, which is the functional and presentation currency of the Group.

### Accounting Estimates, Assumptions and Judgements

In preparing these consolidated Financial Statements management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated Financial Statements are disclosed in the following notes:

- Provision for impairment of loan and lease receivables – refer note 2(a);
- Property developments – refer note 7;
- Estimated impairment of goodwill, customer contracts and software in development – note 5;
- Estimate of impairment revaluation charge on available for sale financial assets – note 8; and
- Income taxes – refer note 13.

### Reclassification of Prior Year Amounts

Where material, comparative amounts have been reclassified to ensure consistency with the current reporting period.

### New and Amended Standards Adopted by the Group

The Group has applied the following standards and amendments that are mandatory for the first time for the financial year beginning 1 July 2017.

- AASB 2016-1 *Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses* clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. There is no change to the underlying principles for the recognition of deferred tax assets.
- AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107* introduces additional disclosures that will enable users of financial statements to evaluate changes in liabilities arising from financing activities; and
- AASB 2017-2 *Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle* clarifies the scope of AASB 12 *Disclosure of Interests in Other Entities* by specifying that the disclosure requirements apply to an entity's interests in other entities that are classified as held for sale, held for distribution to owners in their capacity as owners or discontinued operations.

Additional information on changes in liabilities arising from financing activities are disclosed in note 1(b). Other than this additional disclosure, the adoption of these standards did not have any impact on the current period or any prior period and is not likely to affect future periods.

## 25. Significant Accounting Policies continued

### (a) Basis of Preparation continued

#### Early Adoption of Standards

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2017.

### (b) Principles of Consolidation

#### Subsidiaries

The consolidated Financial Statements incorporate the assets and liabilities of all subsidiaries of RACV as at 30 June 2018 and the results of all subsidiaries for the year then ended. RACV and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to variable returns from, its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The entities controlled by RACV are set out in note 16. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer note 25(e)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated.

Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Investments in subsidiaries are accounted for at cost in the individual statements of the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated Income Statement, consolidated Statement of Comprehensive Income, consolidated Balance Sheet and consolidated Statement of Changes in Equity respectively.

#### Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding between 20 per cent and 50 per cent of the voting rights. Investments in associates are accounted for in the relevant parent entity's Financial Statements using the cost method and in the Group's Financial Statements using the equity method of accounting, after initially being recognised at cost.

The Group's share of associates' post-acquisition profits or losses is recognised in the Income Statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the relevant parent entity's Income Statement, while in the consolidated Financial Statements they reduce the carrying amount of the investment.

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

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred. Accounting policies of associates have been changed where necessary to ensure consistency with policies adopted by the Group.

### (c) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised to the extent that 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:

#### Subscription and Entrance Fees

Members' subscriptions are paid annually in advance throughout the year and are allocated to revenue on a daily pro-rata time basis. The portion of subscriptions received, which relate to the period after the reporting date, are included in the consolidated Financial Statements as unearned income.

#### Commission Income

Commission income is recognised as it accrues and is received in arrears in the month following recognition.

#### Club and Resorts Trading Income and Other Trading Income

Club and resorts trading income and other trading income is recognised as it accrues.

### Towing Income

Towing income relates to car, truck and industrial equipment transport and is recognised as the service is provided.

### Interest

All interest is recognised as the interest accrues using the effective interest method, which is the rate that exactly discounts estimated future cash receipts over the expected life of the financial instrument.

### Sale of Goods

Income from sale of goods is recorded on the delivery of goods sold.

### Trust Distributions

Revenue from trust distributions is recognised when the right to receive the payment is established.

## (d) Income Tax

The income tax expense or benefit for the year is the tax payable or receivable on the current year's taxable income or loss based on the national income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated Financial Statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the liability is settled.

The deferred tax liability in relation to an investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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

Current and deferred tax is recognised in the profit and loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

### Tax Consolidation

RACV and its wholly owned and controlled entities have implemented the tax consolidation legislation. The head entity, RACV and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts.

Each entity in the tax consolidated group measures these tax amounts using the group allocation approach.

Under the group allocation approach, the tax effect of intercompany transactions is recognised within each wholly owned and controlled entity.

Assets or liabilities arising under the tax funding agreement with RACV are recognised as amounts due to/from controlled entities. Any differences between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to or distribution from wholly owned tax consolidated entities (refer note 12).

## 25. Significant Accounting Policies continued

### (e) Acquisition of Assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition, except in business combinations where acquisition related costs are expensed as incurred. In business combinations, contingent payments are included in the purchase consideration at their fair value. Contingent payments classified as debt are subsequently remeasured through profit and loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer note 25(n)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement, but only after a reassessment of the identification and measurement of the net assets acquired.

The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

### (f) Impairment of Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired, and are carried at cost less accumulated impairment losses. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

### (g) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and deposits held at call with financial institutions. Bank overdrafts are presented in cash and cash equivalents when the entities are party to the Group's set-off agreement, otherwise they are shown within interest bearing liabilities in current liabilities on the Balance Sheet. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

### (h) Receivables and Available for Sale Financial Assets

#### Classification

The Group has classified its financial assets into receivables and available for sale financial assets. Classification is dependent on the purpose for which the financial assets were acquired. Management determines the classification at initial recognition.

#### Receivables

Receivables comprise principally consumer loans, leases and trade receivables.

Consumer loans and trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. The initial direct transaction costs and fee revenue relating to consumer loans are included in the initial measurement of the loan.

Lease receivables are recorded at their recoverable amount, an amount equal to the net investment in the lease. The net investment in the lease is equal to the minimum lease payments receivable under the lease plus any unguaranteed residual accruing to the Group discounted at the interest rate implicit in the lease.

Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for impairment is established when there is objective evidence, as a result of past events, that the Group will not be able to collect all amounts due according to the original terms of the receivable. Interest on consumer loans is calculated on the daily balance outstanding and is charged in arrears to a customer's account in accordance with the terms of the loan agreement.

Receivables are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. The carrying amount of receivables approximates fair value as the impact of discounting is not significant.

### Available for Sale Financial Assets

Available for sale financial assets comprise unit trust investments designated to this category. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

Available for sale financial assets are initially recognised on trade date at fair value plus transaction costs and derecognised when the rights to receive cash flows from the financial asset have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. Subsequent changes in fair value are taken to an equity reserve. The fair values of the investments are based on current exit price.

The Group assesses at each reporting date whether there is objective evidence, as a result of past events, that an available for sale financial asset or group of available for sale financial assets is impaired. If any such evidence exists, the cumulative loss, measured as the difference between the acquisition cost and current fair value, less any impairment loss on that asset previously recognised in profit and loss, is removed from equity and recognised in the Income Statement as an impairment revaluation charge. Any subsequent increase in fair value will be accounted for through the fair value reserve whilst any further decrease may continue to be recognised in the Income Statement.

## (i) Inventories

Inventories comprising finished goods and supplies used in the provision of club and resorts services are stated at the lower of cost and net realisable value. Cost is determined on the basis of first in first out. Net realisable value is the estimated selling price in the ordinary course of business less estimated selling costs.

## (j) Other Assets

Other assets are carried at nominal amounts due, less any provision for impairment. A provision for impairment is recognised when there is objective evidence, as a result of past events, that the Group will not be able to collect all amounts due according to the original terms. Other assets are generally settled within 30-day terms.

## (k) Property, Plant and Equipment

Land and buildings (except for investment properties – refer note 25(m)) are shown at fair value, based on periodic valuations by external independent valuers at least every five years, less subsequent depreciation for buildings and freehold land improvements. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other plant and equipment, including assets in the course of construction, are stated at historical cost less depreciation and impairment losses where applicable. Historical cost includes expenditure that is directly attributable to the acquisition of the item.

Land and assets in the course of construction are not depreciated. Depreciation on other assets is calculated on a straight line basis to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives as follows:

- Buildings and land improvements 15 to 40 years (2017: 15 to 40 years)
- Computer and communication equipment 2 to 10 years (2017: 2 to 10 years)
- Plant and equipment 2 to 25 years (2017: 2 to 25 years)

Where carrying values exceed recoverable amount, assets are written down (refer note 25(f)). Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the Income Statement. When revalued assets are sold, amounts included in the asset revaluation reserve in respect of the assets are transferred to retained earnings.

## (l) Leases

Leased property, plant and equipment under which the Group, as lessee, assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

### Finance Leases

The Group recognises finance leases as assets and liabilities, measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. The lease assets are subsequently accounted for in accordance with the accounting policy applicable to the assets. Each lease payment is allocated between the lease liabilities and finance costs.

### Operating Leases

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the leases.

## 25. Significant Accounting Policies continued

### (m) Investment Properties

Investment properties are held for long term rental yields and are not occupied by the Group. Investment properties are carried at fair value, based on periodic valuations determined by external independent valuers at least every five years. Changes in fair value are recorded in the Income Statement.

### (n) Intangible Assets

Intangible assets include customer contracts, goodwill, software and software in development. These assets, except for software, are deemed to have an indefinite useful life and as a result are subject to impairment testing (refer to note 25(f)).

#### Customer Contracts

Customer contracts are recognised where the legal rights attached to customer relationships can be reliably measured and are expected to provide future economic benefits to the Group as identified at the date of acquisition. These are measured at fair value at the date of acquisition. Gains and losses on the disposal of an entity include the carrying amount of customer contracts relating to the entity sold.

#### Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

#### Software

Costs incurred in acquiring software and licenses that will contribute to future financial benefits through revenue generation and/or cost reduction are capitalised to software. Costs capitalised include external direct costs of materials and services, and an appropriate portion of directly attributable employee costs and overheads. Software has a finite useful life and is stated at historical cost less accumulated amortisation. Amortisation is calculated on a straight line basis over periods generally ranging from two to 10 years (2017: one to seven years). Where carrying values exceed recoverable amounts, assets are written down to their recoverable amount (refer note 25(f)).

#### Software in Development

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future financial benefits through revenue generation and/or cost reduction are capitalised to software. Costs capitalised include external direct costs of materials and services and an appropriate portion of directly attributable employee costs and overheads. Software in development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the Group has an intention and ability to use the asset.

### (o) Employee Benefits

#### Wages and Salaries and Sick Leave

Liabilities for wages and salaries and accumulating sick leave that are expected to be settled within 12 months after the end of the period in which the employees render the related service, are recognised in respect of employees' services up to the end of the reporting period and are measured as the amount unpaid at the reporting date at expected pay rates in respect of employees' services up to that date.

#### Long Service Leave and Annual Leave

Liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore recognised and included in the employee entitlements liability, and are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the Balance Sheet if the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

### Incentive Plans

A liability for incentive plans is recognised and included in employee entitlements liability when there is no realistic alternative but to settle the liability and at least one of the following conditions are met:

(i) there are formal terms in the plan for determining the amount of the benefit;

(ii) the amounts to be paid are determined before the time of completion of the financial report; or

(iii) past practice gives clear evidence of the amount of the obligation.

Liabilities for incentive plans are measured at the amounts expected to be paid when they are settled. Amounts payable under long term incentive plans are discounted using corporate bond rates with terms to maturity that match, as closely as possible, the estimated future cash outflows.

### Superannuation Benefits

The RACV Superannuation Fund (Plan) exists to provide benefits to employees of the Group on resignation, retirement, disability or death. RACV operates one fund but with two superannuation sections, a defined contribution section and a defined benefit section.

RACV subsidiaries do not recognise a plan asset/liability or defined benefit costs in their Financial Statements. The superannuation plan asset/liability and costs are recognised in the Financial Statements of RACV, which is the principal employer of the Plan.

A liability or asset in respect of the defined benefit section is recognised in the Balance Sheet and is measured as the present value of the defined benefit obligation at the reporting date less the fair value of the superannuation fund's assets at that date.

The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated periodically by independent actuaries 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 corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the Statement of Changes in Equity and in the Balance Sheet.

Changes in the present value of the defined benefit obligation resulting from Plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

Contributions to the defined contribution section of the Group's superannuation fund and alternative defined contribution superannuation funds are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. Further information on superannuation benefits can be found in note 15.

### Termination Benefits

Liabilities for termination benefits, not in connection with the acquisition of an entity or operation, are recognised at the earlier of the following dates:

(i) when the Group can no longer withdraw the offer of those benefits; and

(ii) when the Group recognises costs for a restructuring that is within the scope of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and involves the payment of termination benefits.

### Other Benefits

All permanent employees are entitled to free Roadside Care upon completion of a three-month qualifying period of employment. All employees are entitled to discounted insurance and those with more than one year's service with RACV are entitled to free membership of the RACV Club. Liabilities for other benefits are measured at the amounts expected to be paid when they are settled.

## (p) Unearned Income

Unearned income represents monies received in advance of providing services to customers (refer note 25(c)).

## 25. Significant Accounting Policies continued

### (q) Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are normally settled within 30 days. Payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method. The carrying amount of payables approximates fair value as the impact of discounting is not significant.

### (r) Interest Bearing Liabilities

#### Secured Notes

Secured notes are initially recorded at their fair value and subsequently measured at amortised cost. Interest expense is recognised using the effective interest method. Details of the terms and conditions are set out in note 9(a).

#### Subscription Agreement

The borrowings on the subscription agreement are recognised initially at fair value and subsequently measured at amortised cost. Details of the terms and conditions are set out in note 9(b).

#### Lease Liabilities

Refer to note 25(l) and 9(c).

### (s) Provisions

A provision is recognised where there is a legal, equitable or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, the timing or amount of which is uncertain and the amount has been reliably estimated.

### (t) Financial Instrument Transaction Costs

Transaction costs are included in the carrying amounts of the financial instruments.

### (u) Goods and Services Tax (GST)

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

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

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

### (v) Rounding of Amounts

The Group is of a kind referred to in Class Order 2016/191, issued by the Australian Securities and Investments Commission (ASIC), relating to the rounding off of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest hundred thousand dollars, except where otherwise indicated.

### (w) Parent Entity Financial Information

The financial information for the parent entity, Royal Automobile Club of Victoria (RACV) Limited, disclosed in note 20 has been prepared on the same basis as the consolidated Financial Statements.

### (x) New Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2018 reporting period and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out as follows:

#### AASB 9 *Financial Instruments*

AASB 9 addresses classification, measurement and derecognition of financial assets and financial liabilities. The standard also sets out new rules for hedge accounting and introduces a new impairment model. It is applicable to annual reporting periods beginning on or after 1 January 2018 with early adoption available.

When adopted, the standard will affect the Group's accounting for its available for sale financial assets since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on investments classed as puttable instruments, such as the Group's investments in unit trusts, will therefore have to be recognised directly in profit or loss. In the current reporting period, the Group recognised $11.9 million of such gain in other comprehensive income (2017: $14.4 million gain).

The standard will also affect loan and lease impairment provisioning. The new impairment model is an expected credit loss model which results in the earlier recognition of credit losses. The Group's assessment of the impact of AASB 9 indicates that the provision will increase by $0.1 million as at 30 June 2018.

Additional information on the impact of reclassification and remeasurement on transition to AASB 9 will be incorporated into relevant disclosure notes, including a reconciliation of the impairment provision from closing balance under current model to opening balance under the new standard.

The standard will not impact the Group's accounting for financial liabilities as the Group does not have any liabilities that are designated at fair value through profit and loss.

## 25. Significant Accounting Policies continued

### (x) New Accounting Standards and Interpretations continued

### AASB 15 *Revenue from Contracts with Customers*

AASB 15 replaces AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of goods or services is transferred to the customer. When adopted, the standard will affect the Group's revenue recognition as follows:

- Accounting for cancellations and refunds – the standard requires that revenue is recognised only for those goods or services that are not expected to be returned or cancelled. This will result in lower revenue recognised from the commencement of the contract due to the deferral of revenue relating to expected returns or cancellations.
- Accounting for non-refundable upfront fees – the fees that provide members with a material right are required to be treated as advance payments for future services. As a result, the Group's joining fees will be deferred and amortised over the expected membership renewal period.
- Accounting for separate performance obligations – the standard requires that revenue relating to the distinct performance obligations under the contract is recognised when the respective obligations are satisfied. This will impact the Group's revenue from the insurance, loan and lease contracts as these contracts include access to member benefits. The portion of revenue related to the provision of member benefits embedded in these contracts will need to be deferred and recognised over the contract period.
- Accounting for right to access a licence – where a contract provides a customer with a right to access a licence, revenue must be deferred over the contract term. As a result, the Group's revenue from digital traffic services will be deferred and recognised over the contractual service period.

The Group intends to adopt the standard using the cumulative effect approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 July 2018 and that comparatives will not be restated. The Group estimates that upon adoption, deferred revenue will be increased by $76.9 million, net deferred tax assets increased by $23.1 million and retained earnings decreased by $53.8 million.

Additional qualitative and quantitative disclosures about the nature, amount, timing and uncertainty of revenue and related cash flows as well as the significant judgements that management made in applying the revenue guidance will be incorporated into relevant disclosure notes.

### AASB 16 *Leases*

AASB 16 is applicable to annual reporting periods beginning on or after 1 January 2019 and early adoption is permitted if AASB 15 has also been applied.

Under the new standard, the present value of lease commitments will be shown as a liability on the Balance Sheet together with an asset representing the right of use. The total lease expense, consisting of both depreciation and interest expense, will be effectively front-loaded in the Income Statement. The accounting for lessors will not significantly change. The Group's operating lease commitments which will be affected by the new standard are disclosed in note 26.

The Group is currently assessing the impact of the new standard on operating income and operating lease commitments. No adjustments are expected for leases in which the Group is a lessor.

There are no other standards that are not yet effective and that are expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

## Unrecognised Items and Uncertain Events

### 26. Commitments and Contingencies

| | 2018 $m | 2017 $m |
|---|---|---|
| (a) Non-cancellable Operating Leases | | |
| The Group leases various retail shops and office space under non-cancellable operating leases expiring within one to 10 years. These leases have varying terms and renewal rights. | | |
| Commitments in relation to non-cancellable operating leases contracted for at reporting date but not yet recognised as liabilities: | | |
| Due not later than one year | **5.5** | 3.0 |
| Due later than one but not later than five years | **11.8** | 8.4 |
| Due later than five years | **–** | – |
| | **17.3** | 11.4 |
| (b) Estimated Capital Expenditure contracted at Reporting Date but not provided for | **7.2** | 40.1 |
| The balance predominantly relates to contracts signed with regards to Cape Schanck resorts development programs and customer relationship management product platform replacement project, (2017: Cape Schanck Resort redevelopment and City Club and Royal Pines Resort development programs). | | |
| (c) Credit Related Commitments | **7.7** | 9.6 |

This relates to customer loans and leases approved by R.A.C.V. Finance Limited but not drawn at reporting date.

### 27. Subsequent Events

On 17 July 2018, RACV acquired the remaining 49 per cent shares in CHR for a total consideration of $4.0 million. As a result, CHR became a fully owned subsidiary of RACV.

On 9 August 2018, IMA declared a dividend relating to the year ended 30 June 2018. RACV has received $29.7 million of this dividend. The dividend has no impact on the financial statements for the year ended 30 June 2018.

In the opinion of the directors, there are no other matters or circumstances which have arisen between 30 June 2018 and the date of this report that have significantly affected or may significantly affect the operations of the Group, the results of those operations and the state of affairs of the Group in subsequent financial years.

# Directors' Declaration
## 30 June 2018

In the directors' opinion:

(a) the attached financial statements and notes are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance, for the year ended on that date; and

(b) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable; and

(c) at the date of the declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 24 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee described in note 24.

Note 25(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the directors.

**On behalf of the Board**

**N M Griffin**
Director

**N Taylor**
Managing Director and Chief Executive Officer

Melbourne,
August 2018

pwc

# *Independent auditor’s report*

To the members of Royal Automobile Club of Victoria (RACV) Ltd

## *Our opinion*

In our opinion:

The accompanying financial report of Royal Automobile Club of Victoria (RACV) Ltd (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

***What we have audited***

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2018
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated income statement for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors’ declaration.

## *Basis for opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the financial report* section of our report.

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

***Independence***

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board’s APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

## *Other information*

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2018, including the Directors' report , but does not include the financial report and our auditor’s report thereon.

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Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## *Responsibilities of the directors for the financial report*

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## *Auditor's responsibilities for the audit of the financial report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:
http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our auditor's report.

Pricewaterhouse Coopers

PricewaterhouseCoopers

JF Power

JF Power
Partner

Melbourne
29 August 2018

# Corporate Directory

## Patron

The Honourable Linda Dessau, AC
Governor of Victoria

## President and Chairman

Ms N M Griffin
BA, FAICD, Dip. CD

## Managing Director and Chief Executive Officer

Mr N Taylor
BA (Geog)

## LEADERSHIP TEAM

### Chief Financial Officer

Ms A Flanagan
BSc(Hons), FCA, GAICD

### Executive General Manager RACV Home

Ms N Brasz
BCom(Hons), MCom

### Executive General Manager Leisure

Mr C Peachey
BCom, CA, MBA, GAICD

### Executive General Manager Motoring and Mobility

Mr P C Turnbull
BSc

### Executive General Manager Membership

Mr K Ramsdale
BCom MBA

### Executive General Manager Corporate Services

Ms M Rich
BEng(Mech), MBA

### Executive General Manager Transformation

Mr M Geraghty
BSc(Hons), MCom, GAICD

### Chief of Staff

Ms Louise Steinfort

### Company Secretary

Ms Mandy Grogan
FGIA, LLB (Hons), BA, GradDipAppFin

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