



service

103rd Annual Report

Notice of Annual General Meeting enclosed





support

42 agencies and branches

380 call centre staff

1,500,000 general phone inquiries

2,856,324 website visits



1,001,619 road service calls
85% service response within 40 minutes
91.2% mobile again at the roadside
700 roadside assistance vehicles



peace of mind

Highlights of 2007

- Membership grows three percent to 1,138,078. Almost 104,000 young Queenslanders now *free2go* members.
- Strong performance by RACQ Insurance makes major contribution to post-tax profit of \$62.4 million.
- Staff patrols and contractors attend more than one million road service calls with a “go” rate of more than 91 percent.
- RACQ *Learn2go* launched to provide an online resource kit for learner drivers and their supervisors.
- Club’s climate change position helps form basis of Australian Automobile Association’s national policy, *On the Road to Greener Motoring*.



- RACQ campaign contributes to Queensland gaining largest single share of roads funding as a federal election outcome.
- Organisational restructure implemented to sharpen member service focus and enhance financial strength through compatible commercial activities.
- RACQ re-affirms its support for community helicopter rescue services, doubling sponsorship to almost \$6 million.
- Investment in Sentinel Content provides members free access to myDrive real-time traffic information.
- RACQ provides free bus services for Schoolies at five resort centres and manages registrations at the Gold Coast through its Mobile Business Centre.
- Motorists continue to turn to RACQ for consumer peace of mind, with 27,712 vehicle inspections and 63,000 technical and legal advisories completed.



President's overview

Julie-Anne Schafer
PRESIDENT

RACQ made major contributions on all sides of the road safety 'triangle' for the benefit of the entire Queensland community.

'Safer drivers in safer vehicles on safer roads' has long been a key objective for RACQ, not least because your Club has a very real vested interest in the well being of our 1.2 million members and their families.

So it is especially pleasing to report on a year's activities in which RACQ made major contributions on all sides of the road safety 'triangle' for the benefit of the entire Queensland community.

Among the most satisfying was comprehensive reform of Queensland's licensing laws for young drivers, which also provided the opportunity to create a unique partnership with the State Government to assist learner drivers and their mentors.

This is a tangible example of RACQ's advocacy at work.

RACQ's road safety specialists made a major contribution to the development and content of Queensland Transport's official publications for learner drivers, their supervisors and provisional licence holders, prior to the launch on July 1 last year of the state's new graduated licence system. That and other material assistance provided by the Club are recognised by RACQ co-branding on the official handbooks.

The RACQ Board placed the highest importance on helping to better prepare and protect young people during their early driving years. As a result, Club management was urged to develop a practical and engaging suite of resources that would help learner drivers and their supervisors to attain – and gain optimum value from – the minimum 100 hours of supervised driving required for a practical driving test.

It is to the great credit of many RACQ staff, working to a tight schedule in multi-disciplinary teams, that the outcome – *Learn2go* – is a product of which not only RACQ but all Queensland can be proud.

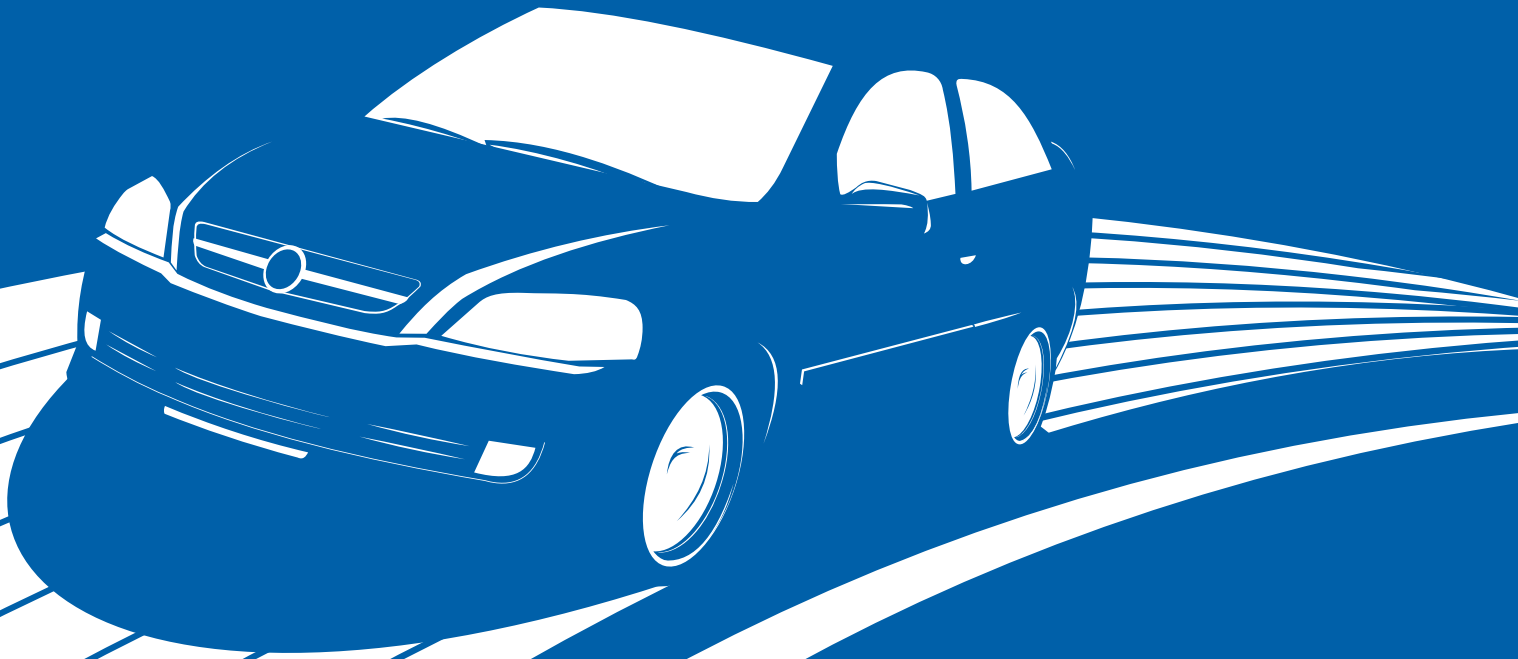
With its online access to an officially recognised logbook in which to record driving hours, video tips on safe driving, dozens of specially selected 'learner drive' maps around the state, and prize incentives to use the website, *Learn2go* is very much a world first, perfectly aligned with Queensland's Smart State philosophy.

Better roads one part of 'smart' solution

Perhaps not so smart has been the traditional approach of all levels of government to road planning, construction and maintenance, seeing these activities as a cost rather than a valuable investment in transport efficiency and public health.

This has been despite no shortage of economic analysis clearly demonstrating the benefits of improved road networks, whether it be through providing greater all-weather capability for our major highways or reducing urban traffic congestion.

Similarly, decision-makers have too often ignored the firm conclusion of our National Road Safety Strategy that making roads themselves safer could account for half of the overall reduction in the rate of road trauma that the strategy aims to achieve.



Against that background, last year's federal election presented an appropriate opportunity to push the case to all major parties for greater Commonwealth commitment to Queensland's National Network highways, which had suffered from several decades of severe under-funding under successive administrations.

Through meetings with relevant Ministers and Queensland's representatives in Federal Parliament, and liaison with like-minded mayors, other interest groups and media, RACQ was well placed to be an

active contributor to *Motoring Matters*, the Australian Automobile Association's pre-election campaign in which the benefits of a more realistically funded National Network of highways were highlighted.

That Queensland received the single largest share of roads funding commitments from both Labor and the Coalition is a gratifying outcome.

But we remain acutely aware that this represents little more than a quarter of what will ultimately be required to bring the state's National Network of highways up to an acceptable standard – and that the promised federal funds will not begin to flow until the start of the second stage of the AusLink land transport program in mid-2009.

While we look forward to a literally more constructive relationship between the politically aligned state and federal governments when it comes to meeting Queensland's pressing roads needs, the remaining funding shortfall clearly indicates that RACQ still has much more work to do on this front.

President's overview (cont'd)



ESC a must for safer cars

In pursuing our goal of safer cars, your Club gave strong support to national efforts to raise motorist awareness of the potentially life-saving benefits of electronic stability control (ESC) fitted to cars.

With ESC commonly recognised as the most valuable in-vehicle safety feature since the advent of seat belts, the pressure has also been maintained on vehicle manufacturers and importers to give Queensland motorists affordable access to this feature across a wider range of vehicle makes and models.

Going green

While safe and affordable mobility remain key strands of RACQ's advocacy on behalf of members, increasing community concern over such major environmental challenges as climate change is now well and truly on our agenda.

Early last year the Club canvassed members' views prior to the Board adopting a precautionary yet positive position on climate change, which recognised that the RACQ and its members can and should play a role in reducing greenhouse emissions from the private motoring sector.

I am pleased to report that the RACQ's position helped lay the basis for a national climate change policy and action plan for the Australian Automobile Association – *On the Road to Greener Motoring* – which was officially launched in February this year.

In seeking to have motorists play an effective and proportionate role in the overall reduction of greenhouse emissions, the policy also targets governments and the automotive industry to provide, respectively, policies and products that genuinely assist that cause.

Low fees and sound finances benefit members

The outline above of just some of the major advocacy activities for 2007 serves to highlight the added dimension of responsibility for RACQ directors, over and above those that come with a board position with any major company.

Among those more 'traditional' responsibilities is ensuring the business is managed in a financially sustainable manner and to the benefit of its owners.

As one of some 1.2 million member/owners of Queensland's largest mutual association, you can be assured that financial responsibility and member benefit were again under the Board's continual focus during 2007.

Another healthy post-tax profit of \$62.4 million and strong accumulated funds of \$552.7 million satisfy directors as to the organisation's sound management and financial strength.

As important is being able to report that RACQ's annual subscription fee is still the lowest of any Australian motoring organisation, while service quality and customer satisfaction levels (as independently assessed and benchmarked against other organisations) remain extremely high.



During 2007 management was encouraged to explore new commercial opportunities that would further offset the increasing costs of running a statewide service network, of which labour and fuel expenses – of necessity – make up a significant component.

From a member's perspective such additional revenue streams better enable the Club to keep subscription fees low and service standards high. But your Board prefers commercial ventures that also provide members with a direct price or other benefit.

The Club's major investment – our half share in RACQ Insurance Pty Limited – more than met the above criteria, returning another solid dividend from providing quality general insurance policies at premiums that recognised and rewarded the loyalty of RACQ members.

As I finish my third and final annual term as Club President, I do so with great satisfaction as to the manner in which RACQ has built on the talents, resourcefulness and service ethos of its people – staff, agents and contractors – to consolidate and enhance the organisation's position as pre-eminent service provider and advocate for more than a million Queenslanders.

I extend my appreciation to CEO Ian Gillespie and his entire team for a year of achievement. I thank my fellow directors for the support they have afforded me over the past three years as President and, more importantly, for the professionalism and dedication with which they have overseen the RACQ's further progress in the best interests of members.





Chief Executive Officer's Operational Review

Ian Gillespie
CHIEF EXECUTIVE OFFICER

We are honoured that more than one fifth of our members have put their trust in RACQ for 25 years or more.

Growth in membership and another pleasing profit told only part of the Club's continuing success story in 2007.

Equally important were the stronger emphasis on the development of commercial activities that enhanced member value as well as the organisation's financial strength, and a refreshed management structure to better ensure the truly remarkable customer service we strive to deliver on all occasions.

Membership, of course, continues to be the Club's lifeblood. A net three percent increase last year to 1,138,078 bettered our 2006 growth rate (2.6 percent) and was an excellent result in the context of increasing competition in the roadside assistance field. It indicates not only that many new car owners still prefer to trust RACQ to come to their aid when their car lets them down, but that Club membership offers far more in terms of value and assistance than just our most recognised service.

A two percent rise in the penetration of Plus and Ultra coverage to 31 percent of members provided further evidence of an increasing preference for the higher level of personal assistance over and above mechanical first-aid that RACQ is well equipped – and trusted – to provide.

While we are honoured that more than one fifth of our members have put their trust in RACQ for 25 years or more, we were also pleased to see almost 104,000 young Queenslanders sign up to our free2go youth program, which last year was extended to include 16-year-olds in alignment with changes to the state's

learner driver rules. During the year, 57 percent of the young people exiting their final year in free2go chose to remain with RACQ as fully paid-up members.

Investments help keep membership fees low

Meeting the needs of a large and diverse membership across Queensland – as well as providing for future major capital upgrades to the service network – costs significantly more each year than can be covered by membership fees alone.

Astute investment portfolio management, combined with other appropriate commercial activities, again held the key to not only effectively subsidising membership fees but also producing a post tax profit of \$62.4 million for 2007.

Another strong performance from RACQ Insurance Limited, our single largest investment, contributed \$27.2 million to the Club's bottom line.

It should be noted that RACQ's general investments performed above industry benchmarks and our insurance affiliate was not overly affected by major weather events in 2007. However, volatility in both markets and weather in recent months provides a cautionary signal as to whether your Club can rely on similarly strong returns in 2008 and beyond.

The creation of a new commercial division as part of an organisational restructure last year should assist, as it aims to help ensure that RACQ can rely on more diverse sources of investment and business revenue in future.

Wherever possible, new commercial ventures and alliances will also deliver a direct benefit to members, such as our investment in Sentinel Content, through which all members are now eligible for free subscription to the company's myDrive real-time traffic information service. The Club's commercial team also began investigating investment opportunities in the travel and leisure sectors – again, with opportunities to deliver direct member benefits as part of its brief.

It's all about service

The size and scope of member contacts were reflected in virtually every area of RACQ operations in 2007.

Notably, road service calls were again over the one million mark (1,001,619), averaging almost two jobs a minute. More than 85 percent of members received service from staff patrols and contractors within 40 minutes of their assistance calls, with 91.2 percent of them made mobile again at the roadside.

It was the consistent delivery of these world-class levels of service that earned RACQ road service entry into the Australian Organisation for Quality's Hall of Fame after three successive wins in its annual state and national awards.

With another 1.5 million general membership and insurance inquiries handled through our 13 1905 number, the Club's telephony network underwent further upgrading, with speech recognition technology to streamline call centre operations and provide better customer service introduced in late 2007.



Greater functionality incorporated into our website racq.com, including the ability to conduct financial transactions and check daily fuel prices, drove total hits for the year to 2,856,324 – a figure expected to rise even further as an ongoing upgrade is progressed this year.

At the same time the Club's commitment to maintaining face-to-face contact with members across the state was underlined with the opening of two new branches in Ipswich and Warwick, bringing to 42 the number of branches and online agencies handling membership and insurance business.

Chief Executive Officer's Operational Review (cont'd)

The commissioning of a purpose-designed and built mobile training centre complemented our larger mobile business centre in delivering an RACQ presence and service to members and RACQ Insurance policyholders in disaster situations and at special events. It also helped us better deliver ongoing training to our regional contractors, who are so vital to the statewide delivery of our road service.

Maintaining RACQ's overall service delivery promise across the state also drove the implementation of regional road hazard inspections by our traffic engineering team in north and central Queensland and the Darling Downs.

Such visits to various major regional centres will now become a regular part of the Club's calendar, allowing us to follow up directly with members' concerns about local road and traffic issues and provide our assessments and recommendations to the relevant road authorities.

The establishment of a dedicated road safety education team provided further opportunities for regional engagement. Community groups in all major centres between Hervey Bay and Cairns, as well as the Darling Downs, hosted our Years Ahead workshops, which are designed to help older motorists continue to drive with safety and confidence.

Following successful trials in south east Queensland, it is intended to roll out our Streets Ahead road safety education presentation to primary schools in other areas as soon as practicable.

New emphasis on traditional role

Looking after members' road travel and related needs was one of RACQ's earliest roles and remains a prime focus. The Club's achievement in this sphere was reflected in its induction last year into the Queensland Tourism Awards Hall of Fame.

The quest for touring-related information and advice continued to drive the most visits to racq.com, and our online trip planner (now licensed to four other Australian motoring clubs) underwent ongoing enhancement to better satisfy members' holiday planning needs and expectations.

The efficiency and timeliness of the Club's recorded telephone road condition reports was also improved with new text-to-voice

technology. This community service is also delivered via the internet with funding from the Department of Main Roads.

RACQ retained its position as the largest external provider of theme park ticket sales, offering members discounted entry to 39 tourist attractions around Australia while generating a useful revenue stream through commissions. Our established systems and expertise in this area enabled us to provide a similar benefit to members wanting to visit Brisbane's Ekka.

Access to good quality holiday accommodation at best available rates is yet another travel and leisure benefit the Club provides for members. Linking RACQ's online trip planner to the search engine of leading online accommodation bookings provider RoamFree will, when development is completed, deliver a comprehensive and attractive solution to this aspect of members' travel needs.

Our decision to take an equity stake in RoamFree and investigation of other investments in the travel and leisure sphere are all subject to the "member benefit" test.

Working for members and the community

Promoting and protecting members' interests as motorists remains central to RACQ's purpose, so it is satisfying to note a year of particularly strong advocacy activity.

This ranged from our federal election roads funding campaign and our contribution to federal and state inquiries on fuel prices to research and activities aimed at making roads, vehicles and drivers safer – all accompanied by a strong media presence to reinforce the Club's views on such issues to the wider community.

As a responsible corporate citizen, the RACQ also continued to make a variety of meaningful contributions to the Queensland community in the past year.



Our commitment to the welfare and safety of young Queenslanders was evidenced in a number of ways. These included:

- the development of the *Learn2go* learner driver program and Streets Ahead for primary students
- playing a key role in registration and transport arrangements for the annual Schoolies' events
- the much acclaimed representation by one of our own young professionals, Joel Tucker, at the United Nations World Youth Road Safety Congress in Geneva, Switzerland.

But perhaps the most obvious manifestation of the RACQ's community involvement over the next three years will continue to be through three of the state's community helicopter rescue organisations. We have renewed naming rights sponsorship agreements totalling almost \$6 million over three years with CareFlight, Capricorn Helicopter Rescue and CQ Rescue to assist them in the ongoing provision of their life-saving services.

In summary, 2007 was a year in which RACQ's commitment to members and the Queensland community was reaffirmed, while the groundwork was laid for sustaining the relevance and value of RACQ membership well into the future.

It was also a year that, of necessity, brought change and added workload to many RACQ staff. Accordingly, I am pleased to put on record my personal appreciation for the manner in which the RACQ team has risen to the many challenges of the year with the diligence, flexibility and commitment to member service that characterise those who choose to serve this organisation.





Corporate Governance

RACQ's annual subscription fee is still the lowest of any Australian motoring organisation, while service quality and customer satisfaction levels remain extremely high.

The RACQ Board of Directors has adopted principles for the corporate governance of the Company, which provide the framework for the Board to carry out its duties and obligations for the benefit of its stakeholders.

The Company's corporate governance policies and procedures support RACQ's purpose, which is to promote the common interests of members.

The activities of RACQ are governed by its Constitution and By-Laws, and the Corporations Act 2001.

RACQ principles for the corporate governance of the company are outlined under the Australian Stock Exchange – Principles of Good Corporate Governance and Best Practice Recommendations:

The Board lays solid foundations for management and oversight

- The role and responsibilities for the Board and its Committees are defined in charters.
- A new Board Charter was adopted in 2006.
- Position descriptions, delegation of authority processes and performance reviews define management's responsibilities.
- The Board regularly reviews strategy and direction at its Board meetings.

The Board is structured to add value

- Details of each Director's qualifications, experience and commitment to Board and Committee meetings is contained in this report.
- All Directors are Non-Executive Directors, including the Chairman.
- Each Director brings to the Board unique business skills appropriate to the board of a large organisation.
- An established recruitment process for casual vacancies ensures that Directors have the appropriate range of skills, knowledge, experience and judgment necessary to govern and that the Board is well equipped to discharge its responsibilities.

Ethical and responsible decision making is promoted

- The Board has adopted various policies and procedures in order to promote its corporate governance culture of accountability, responsibility and ethical behaviour.
- RACQ, in employing the Directors' code of conduct and the employee code of conduct, ensures that ethical values are promoted throughout the organisation.
- The delegation of authority and policy and procedures are regularly reviewed by the Board Audit and Risk Management Committee.
- An extensive system of documented and controlled policies and procedures are in place throughout RACQ.

Integrity in financial reporting is safeguarded

- The Chief Executive Officer and the Chief Financial Officer routinely certify the accuracy of the financial statements to the Board. An Audit and Risk Management Committee operates within RACQ and is constituted by independent Directors.
- The Audit and Risk Management Committee has a clear operating charter.
- The Audit and Risk Management Committee membership and attendance at meetings are disclosed in the Annual Report.

Timely and balanced disclosure

- RACQ is an unlisted public company to which the ASX listing rules do not apply.
- RACQ reports to its members on its operating activities in a timely manner.

The rights of members are respected

- Members of RACQ are advised on all relevant membership and policy issues through the membership magazine (*The Road Ahead*) and through other communications.
- Where appropriate, membership approvals are sought in general meeting pursuant to the Constitution and legislative requirements.

Risk is recognised and managed

- RACQ has in place an Audit and Risk Management Committee in addition to management committees, which oversee the operation and performance of various workplace health and safety, environment and risk management practices.
- The Board has adopted a Corporate Compliance Statement of Commitment and Policy, which outlines the responsibilities imposed upon all members of staff. The policy assists in ensuring that the highest standards of corporate governance are maintained and all applicable laws, codes and standards are adhered to.

Enhanced performance is encouraged

- The Board has an induction process in place and has ongoing education, commercial and legal advice available to all Directors at RACQ's cost.
- The Board periodically conducts a review of its own performance and its understanding of corporate governance requirements.

- A comprehensive and formal management performance evaluation program is in place. The program includes individual executive performance agreements with the Chief Executive Officer, the Chief Financial Officer and General Managers of RACQ as well as performance evaluation for all Group Executive Managers and Executive Managers within RACQ.

Remuneration is determined fairly and responsibly

- The Directors' remuneration is established by the Remuneration Committee, with reference to independent external advice from professional organisations.
- The Remuneration Committee oversees employee remuneration and performance policy.

The legitimate interest of stakeholders is recognised

- RACQ has a clear view of its wider group of stakeholders (including members, employees, customers, the community and regulatory bodies). The RACQ code of conduct identifies both social and business integrity objectives.
- RACQ promotes the legitimate and reasonable interests of Queensland motorists to government, industry and other interest groups and plays an active role in educating young Queenslanders on road safety issues.
- Health, safety, environment and community responsibilities are integral to the way in which RACQ conducts its business.
- RACQ-sponsored helicopter rescue services, which are used for life-saving and other emergency missions, illustrate RACQ's ongoing commitment to the community.



Registered Head Office

2649 Logan Road, Eight Mile Plains, QLD 4113

ACN 009 660 575

Postal address

PO Box 4, Springwood, QLD 4127

Telephone: 61 7 3361 2444

Facsimile: 61 7 3341 8024

Email: racq@racq.com.au

Internet: racq.com

Branches and major agencies

Brisbane

- Browns Plains – Grand Plaza Shopping Centre
- Carindale – Westfield Carindale Shopping Centre
- City – GPO Laneway, Brisbane
- Chermside – Westfield Chermside Shopping Centre
- Eight Mile Plains – RACQ Operations Centre, 2649 Logan Road
- Fortitude Valley – RACQ House, 300 St Pauls Terrace
- Inala – 147 Inala Avenue
- Indooroopilly – Indooroopilly Shopping Centre
- Mitchelton – Brookside Shopping Centre
- Sandgate – 1 Rainbow Street
- Strathpine – Westfield Strathpine Shopping Centre
- Upper Mt Gravatt – Westfield Garden City Shopping Centre
- Wynnum – 169 Florence Street

Other Areas

- Beenleigh – Beenleigh Mall, Main Street
- Bundaberg – 249 Bourbong Street
- Cairns – Stockland Shopping Centre, Earville
- Caloundra – 104 Bulcock Street, Kings Beach
- Capalaba – Capalaba Central Shopping Centre
- Elanora – The Pines Shopping Centre, Guineas Creek Road
- Gladstone – 50 Hanson Road
- Gympie – Goldfields Plaza, 71 Monkland Street
- Ipswich – Riverlink Shopping Centre, North Ipswich
- Loganholme – Loganholme Shopping Village, Bryants Road
- Mackay – 214 Victoria Street
- Maroochydore – 12-16 First Avenue
- Maryborough – Comet Place, 133 Lennox Street
- Miami – 2064 Gold Coast Highway
- Morayfield – Morayfield Shopping Centre, Morayfield Road
- Nambour – 23-25 Currie Street
- Nerang – Centro Shopping Centre, Station Street
- Noosaville – Noosa Civic, 28 Eenie Creek Road
- Pinalba/Hervey Bay – 92 Boat Harbour Drive
- Redcliffe – 8 Snook Street, Clontarf
- Robina – Robina Town Centre, Arbour Court
- Rockhampton – Red Hill Homemaker Centre, Yaamba Road, North Rockhampton
- Runaway Bay – Oasis Shopping Centre, Oxley Drive
- Southport – Australia Fair Shopping Centre
- Southport West – 239 Nerang Road
- Toowoomba – 176 James Street
- Townsville – 202 Ross River Road, Aitkenvale
- Townsville – 635 Sturt Street
- Warwick – Rose City Shopping World, Palmerin Street



Officers and RACQ Directors

as at 31 December 2007

Club Patron

Her Excellency Ms Quentin Bryce AC

GOVERNOR OF QUEENSLAND

Directors

Julie-Anne Schafer LLB (Hons), MAICD, ANZIIF

President and Chairman (Director, South East Zone, since 1996): Lawyer. Chairman of RACQ Insurance Limited. Director of Australian Automobile Association.

Richard J. Pietsch FAICD

Vice President and Deputy Chairman (Director, South West Zone, since 1997): Grazier. Director of RACQ Insurance Limited. Deputy Mayor of Inglewood Shire Council. Director and Company Secretary of Australian Stud Sheep Breeders Association and President of Australian Stud Sheep Breeders Association (Qld).

Nigel W.F. Alexander BBus, MAppFin, CPA, MAICD

Director, South East Zone (Since 2000): Chief Executive of the North Australian Pastoral Company Pty Limited. Animal Welfare Advisory Committee, University of Queensland. Director of RACQ Insurance Limited.

Fay L. Barker OAM, FAICD

Director, North Zone (Since 2001): Councillor of Townsville City Council. Director of Great Barrier Reef Marine Park Authority. Member of board of trustees Breakwater Island Casino Community Benefit Fund.

Anthony M. Gambling BBus, BEcon, MBA, ASA, MAICD

Director, Central Zone (Since 2005): General Manager of Mango 4 Office Technology. Director of various private companies involved in commercialisation of emerging technologies.

Dennis G. Howe OAM, FAIM

Director, Far North Zone (Since 2001): Managing Director of Aus Mining Personnel. Director of Cairns Port Authority. Honorary Swedish Consul for North Queensland.

Geoffrey C. Leddy BTech(Civil), FIEAust, CPEng, LGE, GDM, RPEQ

Director, Wide Bay-Sunshine Coast Zone (Since 1998): Consulting engineer and company director. Director of Leddy Sergiacomi & Associates Pty Ltd.

Peter K. Long FAIM, MAICD

Director, South East Zone (Since 2002): Business consultant. Former CEO of Guide Dogs for the Blind Association of Queensland and former CEO of a company listed on the London Stock Exchange. Vice-President of the Schizophrenia Fellowship of Queensland.

Ian A. Gillespie BA, Dip Laws (BAB), FCEOI, MAICD

Secretary and Chief Executive Officer (Since 2006): Director of RACQ Insurance Limited. Director of the Australian Automobile Association. Director of Indigo Pacific Capital Limited. Director of Standfast Enterprises Limited. Director of Australian Motoring Services Pty Ltd; Assist Australia Pty Ltd; AMS Rewards Pty Ltd; and AAA Tourism Pty Ltd. Director of RACQ Community Fund Pty Ltd.

Other Directors during 2007

John W. Buckby BBus, FAIM, FAICD

Director, South East Zone (Since 1997): Managing director of property and project management and business development company. Former Chief Executive of Motor Trades Association of Queensland. Resigned from RACQ Board January 2008.

Jan M. Taylor BA, LLB, FAIM, FAICD

Director, South East Zone (Since 1992): Community engagement specialist. Building Society and Credit Union Ombudsman. Resigned from RACQ Board May 2007.

Senior Management

GENERAL MANAGER PEOPLE

Rolanda Ayling BEd(Secondary)

GENERAL MANAGER CORPORATE SERVICES

Neale J. Condon BBus, LLB

GENERAL MANAGER EXTERNAL RELATIONS

Gary J. Fites BA

GENERAL MANAGER COMMERCIAL

Ian Mitchell DipTech(Mgt), FAICD

CHIEF FINANCIAL OFFICER

Leanne Muller BCom, ASA, ASIA

GENERAL MANAGER TECHNOLOGY

Bruce E. Rice

GENERAL MANAGER OPERATIONS

Paul V. Williams LLB, A.DipBus, MBus(Mgt), FTIA, MAICD

Pictured opposite from left to right: Richard Pietsch, Nigel Alexander, Julie-Anne Schafer, Dennis Howe, Fay Barker, Peter Long, Ian Gillespie, Tony Gambling and Geoff Leddy.



Directors' Report

The RACQ Board placed the highest importance on helping to better prepare and protect young people during their early driving years.

The Directors present their report together with the financial report of The Royal Automobile Club of Queensland Limited (the Club) and the consolidated financial report of the consolidated entity, being the Club and its controlled entities for the year ended 31 December 2007 and the Auditor's Report thereon.

The Directors of the Club at the date of this report, the number of Directors' meetings (including meetings of committees of Directors) and the number of meetings attended by each of the Directors during the financial year are shown in the table on the next page.

Since the previous year, no Director of the Club has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or receivable by Directors shown in the notes to the accounts) by reason of a contract made by the Club or a related corporation with a Director or with a company in which he or she has a substantial financial interest.

PRINCIPAL ACTIVITIES: The principal activities of the Club are detailed in the President's Overview and the Chief Executive's Operational Review.

REVIEW OF OPERATIONS: The net results of operations of the Club and controlled entities, after tax and after making adequate provision for depreciation and all known contingencies, was a profit of \$62.4 million (2006 – \$73.1 million). A detailed review of operations is contained in the President's Overview and the Chief Executive's Operational Overview.

STATE OF AFFAIRS: In the opinion of Directors there were no significant changes in the state of affairs of the consolidated entity that occurred during the financial year under review not otherwise disclosed in this report or the consolidated financial statements.

EVENTS SUBSEQUENT TO BALANCE DATE: There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of Directors of the Club, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial years.

LIKELY DEVELOPMENTS: Information as to likely developments in the operations of the consolidated entity and the expected results of those operations in subsequent financial years has not been included in this report because, in the opinion of Directors, it could unreasonably prejudice the interests of the consolidated entity.

ENVIRONMENTAL REGULATIONS: The Club's operations are not subject to any significant commonwealth or state environmental regulations.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE: During the financial year, the Club has paid a premium in respect of a contract insuring current Directors and Officers of the Club, or a related body corporate, against certain liabilities. Directors are required to make personal contributions towards this insurance cover.

Attendance at Meetings for 2007

| Director | Board | | Audit and Risk Management Committee | | Services Committee | | Remuneration Committee | | Investment Committee | |
|------------------|-------|----|-------------------------------------|----|--------------------|----|------------------------|----|----------------------|----|
| | A | H* | A | H* | A | H* | A | H* | A | H* |
| Mr N. Alexander | 10 | 10 | 3 | 4 | | | | | | |
| Ms F.L. Barker | 10 | 10 | 4 | 4 | | | | | | |
| Mr J.W. Buckley | 10 | 10 | | | | | | | 4 | 4 |
| Mr A.M. Gambling | 10 | 10 | | | | | | | 4 | 4 |
| Mr D.G. Howe | 10 | 10 | 4 | 4 | 3 | 3 | 3 | 3 | | |
| Mr G.C. Leddy | 9 | 10 | | | 3 | 3 | | | | |
| Mr P.K. Long | 9 | 10 | | | 2 | 3 | | | 3 | 4 |
| Mr R.J. Pietsch | 10 | 10 | | | 3 | 3 | 3 | 3 | | |
| Ms J.A. Schafer | 10 | 10 | | | | | 2 | 3 | | |
| Ms J.M. Taylor | 4 | 4 | | | | | | | 2 | 2 |

* Reflects the number of meetings held during the time the director/committee member held office during the year.

A = number of meetings attended. H = number of meetings held.

The Directors have not included details of the nature of the liabilities covered, the limit of liabilities covered or the amount of premium paid in respect of the Directors' and Officers' Liability insurance contracts, as such disclosure is prohibited under the terms of the contract.

ROUNDING OFF: The Club is a company of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998, and in accordance with that Class Order, amounts in the financial report have been rounded off to the nearest one thousand dollars unless otherwise indicated.

LEAD AUDITOR'S INDEPENDENCE DECLARATION
(under Section 307C of the Corporations Act 2001):

The lead auditor's independence declaration is set out on page 49 and forms part of the directors' report for the year ended 31 December 2007.

Signed in accordance with a resolution of the Directors.

Julie-Anne Schafer

PRESIDENT

11 MARCH 2008



Income statements

for the year ended 31 December 2007

| | Note | RACQ | | RACQ and controlled entities | |
|--|------|----------------|----------------|------------------------------|----------------|
| | | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 |
| Revenue | 2 | 104,634 | 95,712 | 151,239 | 140,286 |
| Expenses | | | | | |
| Advertising and promotions | | (602) | (350) | (7,339) | (7,238) |
| Communication and information technology | | (323) | (374) | (10,673) | (10,524) |
| Personnel expenses | 3(b) | (8,185) | (5,910) | (66,804) | (61,366) |
| Motor vehicles | | (99) | (137) | (2,392) | (2,269) |
| Payments to contractors for roadside assistance and provision of other member services | | (58,000) | (58,000) | (36,586) | (32,282) |
| Property and related costs | | (3,439) | (2,747) | (8,442) | (7,173) |
| Other expenditure | | (6,314) | (4,905) | (11,168) | (8,462) |
| Results from operating activities | | 27,672 | 23,289 | 7,835 | 10,972 |
| Share of net profit of associate accounted for using the equity method | 23 | - | - | 27,182 | 40,111 |
| Finance income | | 1,306 | 1,071 | 29,568 | 25,192 |
| Finance expenses | | (312) | (249) | (1,684) | (1,459) |
| Net financing income | 3(c) | 994 | 822 | 27,884 | 23,733 |
| Profit before income tax | | 28,666 | 24,111 | 62,901 | 74,816 |
| Income tax benefit/(expense) | 4 | 4 | (213) | (453) | (1,695) |
| Profit for the period | | 28,670 | 23,898 | 62,448 | 73,121 |

The income statements are to be read in conjunction with the notes to the financial statements set out on pages 23 to 46.

Balance sheets

as at 31 December 2007

| | Note | RACQ | | RACQ and controlled entities | |
|---|------|----------------|----------------|------------------------------|----------------|
| | | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 |
| Current assets | | | | | |
| Cash and cash equivalents | 5 | 650 | 1,129 | 650 | 1,129 |
| Trade and other receivables | 6 | 368,657 | 315,084 | 4,055 | 2,450 |
| Inventories | 7 | 146 | 96 | 455 | 374 |
| Other investments | 8 | – | – | 114,007 | 108,035 |
| Other current assets | 9 | 21 | 21 | 900 | 435 |
| Total current assets | | 369,474 | 316,330 | 120,067 | 112,423 |
| Non-current assets | | | | | |
| Investments accounted for using the equity method | 10 | – | – | 98,360 | 113,678 |
| Other investments | 8 | 7,687 | 9,034 | 366,654 | 293,081 |
| Investment property | 11 | 886 | 896 | 14,951 | 15,252 |
| Property, plant and equipment | 13 | 57,456 | 41,175 | 57,499 | 41,202 |
| Deferred tax assets | 12 | – | – | 3,417 | 2,715 |
| Total non-current assets | | 66,029 | 51,105 | 540,881 | 465,928 |
| Total assets | | 435,503 | 367,435 | 660,948 | 578,351 |
| Current liabilities | | | | | |
| Trade and other payables | 14 | 48,171 | 12,340 | 21,571 | 18,834 |
| Unearned subscriptions | | 49,061 | 45,437 | 49,061 | 45,437 |
| Current tax payable | | 372 | 71 | 1,342 | 1,079 |
| Employee benefits | 15 | 931 | 936 | 6,705 | 6,533 |
| Total current liabilities | | 98,535 | 58,784 | 78,679 | 71,883 |
| Non-current liabilities | | | | | |
| Employee benefits | 15 | 324 | 273 | 3,143 | 2,829 |
| Deferred tax liabilities | 12 | 2,306 | 2,710 | 26,384 | 22,702 |
| Total non-current liabilities | | 2,630 | 2,983 | 29,527 | 25,531 |
| Total liabilities | | 101,165 | 61,767 | 108,206 | 97,414 |
| Net assets | | 334,338 | 305,668 | 552,742 | 480,937 |
| Accumulated funds | | | | | |
| Reserves | 16 | 52,542 | 52,542 | 96,331 | 86,974 |
| Retained profits | 17 | 281,796 | 253,126 | 456,411 | 393,963 |
| Total accumulated funds | | 334,338 | 305,668 | 552,742 | 480,937 |

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 23 to 46.

Statements of cash flows

for the year ended 31 December 2007

| Note | RACQ | | RACQ and controlled entities | |
|---|-----------------|----------------|------------------------------|-----------------|
| | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 |
| Cash flows from operating activities | | | | |
| | 106,982 | 98,356 | 106,982 | 98,356 |
| | 10,662 | 9,359 | 36,597 | 33,909 |
| | (503) | 119 | 67,549 | 35,616 |
| | (98,202) | (102,069) | (151,764) | (139,692) |
| | (99) | – | (1,226) | (3,258) |
| | 18,840 | 5,765 | 58,138 | 24,931 |
| Cash flows from investing activities | | | | |
| | 135 | 116 | 17,548 | 14,275 |
| | – | – | 4,886 | 4,567 |
| | 1,171 | 955 | 3,103 | 2,823 |
| | – | – | (187,238) | (194,425) |
| | – | – | 123,746 | 154,801 |
| | (21,516) | (8,157) | (21,553) | (8,293) |
| | 891 | 496 | 891 | 496 |
| | (19,319) | (6,590) | (58,617) | (25,756) |
| | (479) | (825) | (479) | (825) |
| | 1,129 | 1,954 | 1,129 | 1,954 |
| | 650 | 1,129 | 650 | 1,129 |

Statements of recognised income and expenses

for the year ended 31 December 2007

| | | | | | |
|---|------|--------|--------|---------|---------|
| Net change in fair value of financial assets held as available-for-sale | 3(c) | – | – | 17,398 | 13,403 |
| Change in fair value of financial assets held as available-for-sale transferred to profit or loss | 3(c) | – | – | (4,031) | (3,527) |
| Income tax on income and expenses recognised directly in equity | 4 | – | – | (4,010) | (2,963) |
| Net income recognised directly in equity | | – | – | 9,357 | 6,913 |
| Profit for the period | | 28,670 | 23,898 | 62,448 | 73,121 |
| Total recognised income and expenses for the period | | 28,670 | 23,898 | 71,805 | 80,034 |

The statements of cash flows and statements of recognised income and expenses are to be read in conjunction with the notes to the financial statements set out on pages 23 to 46.

Notes to the financial statements

for the year ended 31 December 2007

1 Significant accounting policies

The Royal Automobile Club of Queensland Limited (the Company) is a company domiciled in Australia. The address of the Company's registered office is 2649 Logan Road, Eight Mile Plains, Queensland, 4113. The consolidated financial report of the Company for the year ended 31 December 2007 comprises the Company and its subsidiaries (together referred to as the 'consolidated entity') and the consolidated entity's interest in associates.

This financial report was authorised for issue by the Directors on 11 March 2008.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. International Financial Reporting Standards (IFRS) form the basis of Australian Accounting Standards adopted by the AASB, being Australian equivalents to IFRS (AIFRS). The financial reports of the Company and the consolidated entity also comply with IFRS and interpretations adopted by the International Accounting Standards Board.

(b) Basis of preparation

The financial report is presented in Australian dollars. It has been prepared on the basis of historical cost except that financial assets classified as available-for-sale are stated at their fair values.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report.

The entity has elected to early adopt revised accounting standard AASB 8: *Operating Segments*.

The following standards and amendments to standards are available for early adoption at 31 December 2007 but have not been applied in preparing these consolidated financial statements:

- AASB 2007-4 – Amendments to Australian Accounting Standards arising from ED151 and Other Amendments;
- AASB 2007-8 – Amendments to Australian Accounting Standards arising from AASB 101; and
- Revised AASB 101 – Presentation of Financial Statements.

It is expected that the application of the listed standards will not have any financial impact but will result in additional disclosures.

(c) Basis of consolidation

The consolidated financial statements of the economic entity include the financial statements of the Company, being the parent entity, and its controlled entities ("the consolidated entity").

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Investments in controlled entities are carried in the Company's financial statements at cost. Loans to controlled entities are at call and, accordingly, are disclosed as current. Dividends are recognised in the income statement when they are declared by the controlled entities.

(ii) Associates

Associates are those entities in which the consolidated entity has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the consolidated entity holds between 20 and 50 percent of the voting power of another entity. Jointly controlled entities are those entities over whose activities the consolidated entity has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The consolidated entity's investment includes goodwill identified on acquisition net of any accumulated impairment losses. The consolidated financial statements include the consolidated entity's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the consolidated entity, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the consolidated entity's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the consolidated entity has an obligation or has made payments on behalf of the investee.

Movements in reserves are recognised directly in consolidated reserves. Dividends received are recognised as a reduction in the carrying value of the investment.

1 Significant accounting policies (cont'd)**(c) Basis of consolidation (cont'd)*****(iii) Transactions eliminated on consolidation***

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the consolidated entity's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) Unearned member subscriptions

The 365-day method is used to calculate the amount of unearned member subscriptions. This involves the spread of subscription income using a time-based method so as to calculate the portion of the subscription applicable to the unexpired period of a membership term.

(e) Income tax

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

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(f) Employee benefits***(i) Wages, salaries, annual leave and sick leave***

The liabilities for employee benefits for wages, salaries, annual leave and sick leave represent the amount which the consolidated entity has a present obligation to pay resulting from employees' services provided up to the balance date which are expected to be settled within 12 months of the balance date. The provisions have been calculated at undiscounted amounts based on wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

(ii) Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in profit or loss when they are due.

(iii) Defined benefit superannuation funds

The consolidated entity's net obligation in respect of defined benefit superannuation funds is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets are deducted.

The discount rate is the yield at the balance sheet date on Commonwealth Government bonds that have maturity dates approximating to the terms of the consolidated entity's obligation. The calculation is performed by a qualified actuary using the projected unit credit method.

Where the calculation results in a benefit to the consolidated entity, the recognised asset is limited to the net total of any unrecognised actuarial losses and past services costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

(iv) Long-term service benefits

The consolidated entity's net obligation in respect of long-term service benefits, other than defined benefit superannuation funds, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attaching to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the consolidated entity's obligations.

(g) Property, plant and equipment***(i) Recognition and measurement***

Items of property, plant and equipment are initially measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

1 Significant accounting policies (cont'd)

(g) Property, plant and equipment (cont'd)

(ii) Subsequent costs

The cost of replacing an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the consolidated entity and its cost can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of the assets. Land is not depreciated. The depreciation rates used for each class of asset in the current and comparative periods are as follows:

| | <i>Depreciation rate</i> | <i>Depreciation method</i> |
|---|--------------------------|----------------------------|
| ■ Buildings (investment and owner occupied) | 2 ½% | Straight line |
| ■ Plant and equipment | 5 – 40% | Straight line |

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(h) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the consolidated entity becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the consolidated entity's contractual rights to the cash flows from the financial assets expire or if the consolidated entity transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Purchases and sales of financial assets are accounted for at trade date, i.e., the date that the consolidated entity commits itself to purchase or sell the asset. Financial liabilities are derecognised if the consolidated entity's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in Note 1(l).

(ii) Held-to-maturity investments

If the consolidated entity has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

(iii) Available-for-sale financial assets

The consolidated entity's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair values and changes therein, other than impairment losses (see Note 1(k)), are recognised directly in a separate component of equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

(iv) Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(i) Investment Property

Investment properties comprise investment interests in land and buildings held for the purpose of either capital appreciation or for renting to produce rental income, or both. The consolidated entity has chosen the 'cost model' approach in accounting for their investment properties. Accordingly the investment properties are recorded at cost less any accumulated depreciation and any accumulated impairment losses.

Investment properties are depreciated on a straight-line basis at 2.5% per annum. External valuations by independent valuers are obtained every three years and on an annual basis management assess the properties for impairment.

(j) Inventories

Inventories are measured at the lower of cost and net realisable value.

Net realisable value is determined on the basis of normal selling prices. Expenses of marketing, selling and distribution to customers are estimated and are deducted to establish net realisable value.

(k) Impairment

The carrying amounts of the consolidated entity's assets other than inventory and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised in profit or loss.

1 Significant accounting policies (cont'd)

(k) Impairment (cont'd)

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (groups of units) on a pro rata basis.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit and loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

The recoverable amount of the consolidated entity's receivables carried at cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate. Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

(l) Finance income and expense

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the consolidated entity's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings. All borrowing costs are recognised in profit or loss using the effective interest method.

(m) Revenue

(i) Member subscriptions

Member subscriptions comprise amounts received from members net of GST. The earned portion of subscriptions received is recognised as revenue evenly over the membership period (365 days).

(ii) Entrance fees

Entrance fees are recognised as revenue upon receipt.

(iii) Member services

Member services comprise revenue from sale of member-related services to members and is recognised as it accrues.

(iv) Rental income

Rental income from investment properties is recognised in profit or loss on a straight-line basis over the term of the lease.

(v) Sale of non-current assets

The gain or loss from sale of assets is included in profit and loss of the consolidated entity and is brought to account at the date an unconditional contract is signed. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

(vi) Other revenue

Other revenue is recognised as it is earned. Other revenue primarily relates to the distribution and services fees the consolidated entity receives from an associated entity RACQ Insurance Limited.

(n) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the item of expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

1 Significant accounting policies (cont'd)

(o) Operating leases

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

(p) Significant estimates, judgements and assumptions

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities estimates. These accounting policies have been consistently applied by each entity in the consolidated entity. The consolidated entity's most significant estimate is the calculation of surplus in the defined benefit superannuation plan. Details of the assumptions involved in this estimate are contained in Note 15.

(q) Financial risk management

OVERVIEW

The Company and Group have exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Company's and consolidated entity's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Audit and Risk Management Committee, which is responsible for developing and monitoring risk management policies. The Audit and Risk Management Committee reports regularly to the Board of Directors on its activities.

Risk management policies are established to identify and analyse the risks faced by the Company and consolidated entity, to set appropriate risk limits and controls, and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's and consolidated entity's activities. The Company and consolidated entity, through their management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit and Risk Management Committee oversees how management monitors compliance with the Company's and consolidated entity's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company and the consolidated entity. The Audit and Risk Management Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Management Committee.

CREDIT RISK

Credit risk is the risk of financial losses to the Company and consolidated entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's and consolidated entity's receivables from customers and investments in fixed interest securities. It arises also from receivables due from subsidiaries and associates.

(i) Trade and other receivables

The Company's and consolidated entity's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company's and consolidated entity's customer base, including the default risk has only a marginal influence on credit risk. The Company's and consolidated entity's customers consist primarily of 1,138,078 (2006: 1,091,376) members domiciled in Queensland.

Based on a history of rare write-offs of receivables due from customers, the Company and consolidated entity have established an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main component of this allowance is a collective loss allowance determined based on historical data of defaults.

(ii) Investments

The Company and consolidated entity have an investment policy in place which details the investment strategy, the investments the Company and consolidated entity are allowed to invest in, as well as an investment portfolio structure that details the share of each investment class in the investment portfolio. According to the policy the consolidated entity invests in:

- Equity securities
- Fixed interest securities; and
- Investment properties.

The consolidated entity limits its exposure to credit risk by only investing in fixed interest securities that comply with Board-approved exposure limits that are reviewed on a regular basis. Given these exposure limits management does not expect any counterparty to fail to meet its obligations.

1 Significant accounting policies (cont'd)

(q) Financial risk management (cont'd)

(iii) Guarantees

Refer to Note 22 Deed of cross guarantee.

LIQUIDITY RISK

Liquidity risk is the risk that the Company and the consolidated entity will not be able to meet its financial obligations as they fall due. The Company's and consolidated entity's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity on a daily basis to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the consolidated entity's reputation.

The major source of revenue for the Company and the consolidated entity is membership subscription income. The risk of cash outflow exceeding cash inflows is mitigated predominantly through the use of a fixed cost operating structure based on estimated future demand. Estimated future demand can depend on a number of factors that cannot be predicted with significant accuracy such as adverse weather conditions or upward volatility in the price of fuel. The consolidated entity budgets contain amounts conservatively calculated to cover the cost of such factors that in the past have generally proved more than adequate.

The already strong net cash from operating activities of the consolidated entity is further supported by a program of regular maturities of fixed interest investments throughout the year.

The consolidated entity also has a 50% investment in RACQ Insurance Limited. Dividends from RACQ Insurance depend on its performance. RACQ Insurance underwrites personal lines of insurance comprising home, motor and compulsory third party policies. The risks of underwriting are managed by RACQ Insurance through a number of risk management strategies, the primary one being reinsurance.

In addition the Company has an 11:00am call borrowing facility for \$2,000,000 (2006:\$2,000,000) and access to a bank overdraft facility of \$100,000 (2006:\$100,000). As at 31 December 2007 there were no amounts drawn against these facilities.

MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's and consolidated entity's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Company and the consolidated entity have not entered into derivatives or off-balance sheet transactions in order to manage market risks.

CURRENCY RISK

The Company and the consolidated entity are not materially exposed directly to foreign exchange risk since all transactions including investments and all monetary assets and liabilities are denominated in Australian Dollars.

INTEREST RATE RISK

The Company and the consolidated entity are not materially exposed to interest rate risk since all financial liabilities are non-interest bearing and investment maturity durations vary across the portfolio thereby diversifying interest rate risk exposure.

EQUITY PRICE RISK – INVESTMENTS IN EQUITY SECURITIES

At least 95% of the market value of the equity securities portfolio comprises stock that forms part of the Standard & Poor's ASX200 Index. Strategic investments in unlisted companies require Board approval.

OTHER MARKET PRICE RISKS

Investments in property are restricted to direct property investments or unlisted property trusts with listed property trusts included in the equity securities portfolio. All property investments have to adhere to Board approved investment property guidelines that are reviewed on a regular basis.

The Company and the consolidated entity have not entered into derivative financial instruments or commodity contracts.

CAPITAL MANAGEMENT

The Board's policy is to maintain accumulated funds and reserves at a healthy level and returns from investments provide funds to continue to provide quality assistance products and value for money for the benefits of current and prospective members of the Company. Measures to pursue the Board's policy regarding capital management are mainly focused on members and membership growth. These measures are defined in an annual process whose result is an annual budget. The Board of Directors monitors capital management based on surplus after tax before share of associates and consolidated group surplus.

There were no changes in the consolidated entity's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

2 Revenue

| | RACQ | | RACQ and controlled entities | |
|---|----------------|----------------|------------------------------|----------------|
| | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 |
| Gross subscriptions and entrance fees | 97,257 | 89,414 | 97,257 | 89,414 |
| Decrease/(increase) in unearned subscriptions | (3,625) | (3,936) | (3,625) | (3,936) |
| <i>Member subscription revenue</i> | 93,632 | 85,478 | 93,632 | 85,478 |
| <i>Member services revenue</i> | 1,309 | 1,826 | 23,210 | 21,383 |
| <i>Other revenue</i> | | | | |
| Distribution and services charge – RACQ Insurance Limited | 9,693 | 8,408 | 33,164 | 30,725 |
| Other revenue | – | – | 1,233 | 2,700 |
| | 9,693 | 8,408 | 34,397 | 33,425 |
| Total revenue | 104,634 | 95,712 | 151,239 | 140,286 |

3 Profit before tax

(a) Profit before tax has been arrived at after charging/(crediting) the following items:

Depreciation of:

| | | | | |
|------------------------------------|-------|-------|-------|-------|
| Buildings | 417 | 405 | 417 | 405 |
| Plant and equipment | 4,393 | 3,856 | 4,414 | 3,870 |
| Depreciation – investment property | 10 | 11 | 300 | 299 |
| Operating lease rental expense | 1,076 | 1,045 | 1,076 | 1,045 |

(b) Personnel expenses

| | | | | |
|---|-------|-------|--------|--------|
| Wages and salaries | 6,505 | 5,971 | 62,062 | 56,261 |
| Contribution to defined contribution superannuation funds | 333 | 292 | 3,395 | 3,216 |
| Expense related to defined benefit superannuation funds | 1,347 | (353) | 1,347 | 1,889 |
| | 8,185 | 5,910 | 66,804 | 61,366 |

(c) Net financing income

| | | | | |
|--|-------|-------|---------|---------|
| Interest income on available-for-sale financial assets | – | – | 17,413 | 14,159 |
| Interest income on bank deposits | 135 | 116 | 135 | 116 |
| Dividend income on available-for-sale financial assets | – | – | 4,886 | 4,567 |
| Net gain on disposal of available-for-sale financial assets transferred from equity | – | – | 4,031 | 3,527 |
| Rent received from other parties | 106 | 106 | 2,038 | 1,974 |
| Rent received from associated company | 1,065 | 849 | 1,065 | 849 |
| Finance income | 1,306 | 1,071 | 29,568 | 25,192 |
| Impairment loss on trade receivables | – | – | (32) | (3) |
| Other finance expense | (312) | (249) | (1,652) | (1,456) |
| Finance expense | (312) | (249) | (1,684) | (1,459) |
| Net finance income and expense | 994 | 822 | 27,884 | 23,733 |
| The above financial income and expense includes the following in respect of assets (liabilities) not at fair value through profit or loss: | | | | |
| Total interest income on financial assets | 135 | 116 | 17,548 | 14,275 |
| Total interest expense on financial liabilities | (312) | (249) | (1,652) | (1,456) |

3 Profit before tax (cont'd)

| | RACQ | | RACQ and controlled entities | |
|---|----------------|----------------|------------------------------|----------------|
| | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 |
| Recognised directly in equity | | | | |
| Net change in fair value of available-for-sale financial assets | - | - | 17,398 | 13,403 |
| Net change in fair value of available-for-sale financial assets transferred to profit or loss | - | - | (4,031) | (3,527) |
| Income tax on income and expense recognised directly in equity | - | - | (4,010) | (2,963) |
| Finance income recognised directly in equity, net of tax | - | - | 9,357 | 6,913 |
| Recognised in: | | | | |
| Reserves | - | - | 9,357 | 6,913 |

An impairment loss in the Company of nil (2006: \$nil) and in the consolidated entity of \$32,000 (2006: \$3,000) in respect of trade receivables was recognised in finance expenses.

4 Income tax

Recognised in the income statement

Current tax expense:

| | | | | |
|-----------------------------|-----|-----|-------|-------|
| Current year | 380 | 350 | 1,544 | 2,076 |
| Adjustments for prior years | 20 | - | 15 | - |
| | 400 | 350 | 1,559 | 2,076 |

Deferred tax expense:

| | | | | |
|--|---------|---------|----------|---------|
| Origination and reversal of temporary differences | (404) | 149 | (1,106) | (95) |
| Benefit of tax loss recognised | - | (286) | - | (286) |
| Total income tax expense in income statement | (4) | 213 | 453 | 1,695 |
| Deferred tax recognised directly in equity | | | | |
| Relating to other financial assets current | - | - | 6 | (150) |
| Relating to other financial assets non-current | - | - | 4,004 | 3,113 |
| Total income tax recognised directly in equity | - | - | 4,010 | 2,963 |
| Prima facie tax expense calculated at 30% (2006: 30%) on operating profit before tax | 8,600 | 7,233 | 18,871 | 22,445 |
| Movement in income tax expense due to: | | | | |
| Losses from previous year | - | (286) | - | (286) |
| Utilisation of capital losses | - | - | - | (2) |
| Share of associate's net profit | - | - | 4,595 | (8,283) |
| Mutual income and related deductions | (8,604) | (6,734) | (8,604) | (6,734) |
| Losses from subsidiaries | - | - | - | - |
| Tax offset in franked dividends | - | - | (14,118) | (5,022) |
| Other non deductible expenses | - | - | (291) | (423) |
| Income tax expense on operating profit | (4) | 213 | 453 | 1,695 |

5 Cash and cash equivalents

Cash at bank and on hand

| RACQ | | RACQ and controlled entities | |
|----------------|----------------|------------------------------|----------------|
| 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 |
| 650 | 1,129 | 650 | 1,129 |

6 Trade and other receivables

Current

Receivables due from controlled entities

Receivables due from associate

Trade receivables

| | | | |
|----------------|----------------|--------------|--------------|
| 364,906 | 312,923 | – | – |
| 2,024 | 909 | 2,024 | 923 |
| 1,727 | 1,252 | 2,031 | 1,527 |
| 368,657 | 315,084 | 4,055 | 2,450 |

The Company's exposure to credit and currency risk and impairment loss related to trade receivables are disclosed in Note 19.

7 Inventories

Inventories stated at lower of cost and net realisable value

| | | | |
|-----|----|-----|-----|
| 146 | 96 | 455 | 374 |
|-----|----|-----|-----|

8 Other investments

Current

Debt securities available-for-sale

Interest bearing deposits available-for-sale

| | | | |
|---|---|----------------|----------------|
| – | – | 107,007 | 100,635 |
| – | – | 7,000 | 7,400 |
| – | – | 114,007 | 108,035 |

Non-current

Surplus – Defined benefit superannuation fund

Equity securities available-for-sale

Debt securities available-for-sale

Other unlisted investments available-for-sale

Total other financial assets

| | | | |
|--------------|--------------|----------------|----------------|
| 7,687 | 9,034 | 7,687 | 9,034 |
| – | – | 149,861 | 116,953 |
| – | – | 194,533 | 158,871 |
| – | – | 14,573 | 8,223 |
| 7,687 | 9,034 | 366,654 | 293,081 |

Interest-bearing available-for-sale financial assets, with a carrying amount of \$308,540,000 as at 31 December 2007 (2006: \$266,906,000) have stated interest rates of 5.00 to 7.75 percent (2006: 5.00 to 7.50 percent) and mature 1 to 3.5 years.

The Company's and consolidated entity's exposure to credit, currency and interest rate risks related to other investments is disclosed in Note 19.

Sensitivity analysis – equity price risk

At least 95% of the market value of the equity securities portfolio comprises stock that form part of the Standard & Poor's ASX 200 index. For such investments classified as available-for-sale, a 1 percent increase in the ASX 200 index at the reporting date would have increased equity by \$1,049,000 after tax (2006:\$819,000); an equal change in the opposite direction would have decreased equity by \$1,049,000 after tax (2006: a decrease of \$819,000).

9 Other current assets

Prepayments

| | | | |
|----|----|-----|-----|
| 21 | 21 | 900 | 435 |
|----|----|-----|-----|

10 Investments accounted for using the equity method

Investment in RACQ Insurance Limited (refer Note 23)

| | | | |
|---|---|--------|---------|
| – | – | 98,360 | 113,678 |
|---|---|--------|---------|

11 Investment property

| | RACQ | | RACQ and controlled entities | |
|--|----------------|----------------|------------------------------|----------------|
| | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 |
| Balance at 1 January | 925 | 925 | 16,122 | 15,986 |
| Acquisitions | - | - | - | 137 |
| Accumulated depreciation | (39) | (29) | (1,171) | (871) |
| Balance at 31 December | 886 | 896 | 14,951 | 15,252 |
| Balance of accumulated depreciation at 1 January | 29 | 18 | 871 | 572 |
| Depreciation expense | 10 | 11 | 300 | 299 |
| Balance of accumulated depreciation at 31 December | 39 | 29 | 1,171 | 871 |

The carrying amount of investment property is the deemed cost of the property. Depreciation of 2 ½% of the building component of the property is being charged on a straight line basis.

The fair value of the investment property has been determined by an independent valuation carried out as at 31 December 2006 by McGees AAPI to be \$22,800,000. The basis of valuation was open market value for existing use.

12 Tax assets and liabilities**Unrecognised deferred tax assets**

Deferred tax assets were not recognised in respect of these previous year items because it is not probable that future taxable profit will be available against which the RACQ or consolidated entity can utilise the benefits therefrom.

The deductible temporary differences and tax losses do not expire under current tax legislation.

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| RACQ and controlled entities | Assets \$'000 | | Liabilities \$'000 | | Net \$'000 | |
|---|------------------|-------|-----------------------|----------|---------------|----------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Property, plant and equipment | - | - | (802) | (802) | (802) | (802) |
| Other investments current | - | - | (368) | (361) | (368) | (361) |
| Other investments non current | - | - | (22,832) | (18,829) | (22,832) | (18,829) |
| Employee benefits | 3,047 | 2,445 | (2,306) | (2,710) | 741 | (265) |
| Other items | - | 270 | (76) | - | (76) | 270 |
| Tax value of loss carry forwards recognised | 370 | - | - | - | 370 | - |
| Tax assets / (liabilities) | 3,417 | 2,715 | (26,384) | (22,702) | (22,967) | (19,987) |
| Set off of tax | - | - | - | - | - | - |
| Net tax assets / (liabilities) | 3,417 | 2,715 | (26,384) | (22,702) | (22,967) | (19,987) |
| RACQ | | | | | | |
| Property, plant and equipment | - | - | - | - | - | - |
| Other investments current | - | - | - | - | - | - |
| Employee benefits | - | - | (2,306) | (2,710) | (2,306) | (2,710) |
| Other items | - | - | - | - | - | - |
| Tax value of loss carry forwards recognised | - | - | - | - | - | - |
| Tax assets / (liabilities) | - | - | (2,306) | (2,710) | (2,306) | (2,710) |
| Set off of tax | - | - | - | - | - | - |
| Net tax assets / (liabilities) | - | - | (2,306) | (2,710) | (2,306) | (2,710) |

12 Tax assets and liabilities (cont'd)

Movement in temporary differences during the year

| | RACQ \$'000 | | | | RACQ and controlled entities \$'000 | | | |
|-------------------------------|---------------------|------------------------------------|-------------------------|----------------------|--|------------------------------------|-------------------------|----------------------|
| | Balance 1 Jan 07 | Recognised in profit or loss | Recognised in equity | Balance 31 Dec 07 | Balance 1 Jan 07 | Recognised in profit or loss | Recognised in equity | Balance 31 Dec 07 |
| Property, plant & equipment | - | - | - | - | (802) | - | - | (802) |
| Other investments current | - | - | - | - | (361) | - | (7) | (368) |
| Other investments non-current | - | - | - | - | (18,829) | - | (4,003) | (22,832) |
| Employee benefits | (2,710) | 404 | - | (2,306) | (264) | 1,006 | - | 741 |
| Other items | - | - | - | - | 270 | (346) | - | (76) |
| Tax value of losses | - | - | - | - | - | 370 | - | 370 |
| | (2,710) | 404 | - | (2,306) | (19,986) | 1,030 | (4,010) | (22,967) |
| | Balance 1 Jan 06 | Recognised in profit or loss | Recognised in equity | Balance 31 Dec 06 | Balance 1 Jan 06 | Recognised in profit or loss | Recognised in equity | Balance 31 Dec 06 |
| Property, plant & equipment | - | - | - | - | (802) | - | - | (802) |
| Other investments current | - | - | - | - | (511) | - | 150 | (361) |
| Other investments non-current | - | - | - | - | (15,716) | - | (3,113) | (18,829) |
| Employee benefits | (2,527) | (183) | - | (2,710) | (2,527) | 2,262 | - | (265) |
| Other items | - | - | - | - | 987 | (717) | - | 270 |
| | (2,527) | (183) | - | (2,710) | (18,569) | 1,545 | (2,963) | (19,987) |

13 Property, plant and equipment

| | RACQ | | RACQ and controlled entities | |
|--|-----------------|----------------|------------------------------|----------------|
| | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 |
| Freehold land | | | | |
| <i>At cost</i> | 17,137 | 5,836 | 17,137 | 5,836 |
| | 17,137 | 5,836 | 17,137 | 5,836 |
| Buildings | | | | |
| <i>At cost</i> | 17,194 | 17,194 | 17,194 | 17,194 |
| <i>Accumulated depreciation</i> | (2,058) | (1,641) | (2,058) | (1,641) |
| | 15,136 | 15,553 | 15,136 | 15,553 |
| Plant and equipment | | | | |
| <i>At cost</i> | 60,810 | 51,438 | 60,966 | 51,557 |
| <i>Accumulated depreciation</i> | (35,755) | (33,539) | (35,868) | (33,631) |
| | 25,055 | 17,899 | 25,098 | 17,926 |
| Capital works in progress | | | | |
| <i>At cost</i> | 128 | 1,887 | 128 | 1,887 |
| Total property, plant and equipment net book value | 57,456 | 41,175 | 57,499 | 41,202 |

13 Property, plant and equipment (cont'd)

| | RACQ | | RACQ and controlled entities | |
|--|----------------|----------------|------------------------------|----------------|
| | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 |
| Reconciliations | | | | |
| Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below: | | | | |
| <i>Freehold land</i> | | | | |
| Carrying amount at beginning of year | 5,836 | 5,886 | 5,836 | 5,886 |
| Additions | 11,461 | – | 11,461 | – |
| Disposals | (160) | (50) | (160) | (50) |
| Transfer from investment properties | – | – | – | – |
| Carrying amount at end of year | 17,137 | 5,836 | 17,137 | 5,836 |
| <i>Buildings</i> | | | | |
| Carrying amount at beginning of year | 15,553 | 10,709 | 15,553 | 10,709 |
| Disposals | – | – | – | – |
| Transfer from investment properties | – | – | – | – |
| Transfer from capital works in progress | – | 5,249 | – | 5,249 |
| Depreciation | (417) | (405) | (417) | (405) |
| Carrying amount at end of year | 15,136 | 15,553 | 15,136 | 15,553 |
| <i>Plant and equipment</i> | | | | |
| Carrying amount at beginning of year | 17,899 | 14,668 | 17,926 | 14,709 |
| Additions | 9,927 | 6,261 | 9,964 | 6,261 |
| Transfer from capital works in progress | 1,887 | 989 | 1,887 | 989 |
| Disposals | (265) | (163) | (265) | (163) |
| Depreciation | (4,393) | (3,856) | (4,414) | (3,870) |
| Carrying amount at end of year | 25,055 | 17,899 | 25,098 | 17,926 |
| <i>Capital works in progress</i> | | | | |
| Carrying amount at beginning of year | 1,887 | 6,238 | 1,887 | 6,238 |
| Additions | 128 | 1,887 | 128 | 1,887 |
| Transfers to property, plant and equipment and buildings | (1,887) | (6,238) | (1,887) | (6,238) |
| Carrying amount at end of year | 128 | 1,887 | 128 | 1,887 |

Valuations

An independent valuation of freehold land and buildings was carried out as at 31 December 2006 by McGees AAPI. The basis of valuation was open market values for existing use and resulted in a valuation of \$60,330,000. As the Company adopts the cost basis for land and buildings, the independent valuation is not recognised in these financial statements. Based on current circumstances there is no evidence to suggest the recorded balance is impaired.

14 Trade and other payables

| | | | | |
|-----------------------------|--------|--------|--------|--------|
| Trade payables | 9,760 | 9,548 | 12,078 | 10,886 |
| Amounts owing to associate | 35,714 | – | – | – |
| Other payables and accruals | 2,697 | 2,792 | 9,493 | 7,948 |
| | 48,171 | 12,340 | 21,571 | 18,834 |

15 Employee benefits

| | RACQ | | RACQ and controlled entities | |
|----------------------------------|----------------|----------------|------------------------------|----------------|
| | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 |
| Current | | | | |
| Liability for annual leave | 666 | 650 | 4,949 | 4,744 |
| Liability for long service leave | 265 | 286 | 1,756 | 1,789 |
| | 931 | 936 | 6,705 | 6,533 |
| Non-current | | | | |
| Liability for long service leave | 324 | 273 | 3,143 | 2,829 |
| Number of employees | | | | |
| Number of employees at year end | 82 | 75 | 1,055 | 1,003 |

Superannuation plan

The consolidated entity and certain related entities contribute to a defined benefit employee superannuation plan. In the 2000 year the plan introduced an Accumulation Division.

In the case of the Accumulation Division the consolidated entity and certain related entities have a legally enforceable obligation to contribute to the Division in respect of employees who have chosen that Division.

In the case of the Defined Benefit Division, employer contributions are based on the advice of the plan's actuary. Contributions in excess of those specified in Superannuation Industry (Supervision) legislation are not legally enforceable except in the event of a shortfall in the plan's assets to meet payments due to employees. Employees' contributions are based on various percentages of their gross salaries.

The Defined Benefit Division provides defined benefits based on years of service and final average salary. In accordance with the Trust Deed, the consolidated entity and certain related entities are under a legal obligation to make up any shortfall in the Defined Benefit Division's assets to meet payments due to employees.

An actuarial assessment of the Defined Benefit Division as at 1 July 2005 was carried out by Mr J Hotz, FIAA on 7 February 2006. The actuary concluded that the assets of the Defined Benefit Division were sufficient to meet all benefits payable in the event of the Defined Benefit Division's termination, or the voluntary or compulsory termination of employment of each employee of the consolidated entity and certain related entities.

The accrued benefits, plan assets at net market value and vested benefits of the plan are set out below. Accrued benefits are benefits that the plan is presently obliged to pay at some future date, as a result of membership of the plan. Vested benefits are benefits that are not conditional upon the continued membership of the plan or any factor, other than resignation from the plan.

The Directors, based on the advice of the Trustees of the plan, are not aware of any changes in circumstances since the date of the most recent financial statements of the plan that would have a material impact on the overall financial position of the plan.

Details of contributions to the above plan during the year and contributions payable at 31 December 2007 are as follows:

| | | | | |
|------------------------------------|---|-----|---|-------|
| Employer contributions to the plan | | | | |
| Defined Benefit Division | - | 257 | - | 2,500 |

Defined benefit plan sponsored by the Company (either individually or jointly with other entities in the consolidated entity and other related parties)

| | Plan assets at net market value \$'000 | Total accrued benefits \$'000 | Excess/ (deficit) \$'000 | Total vested benefits \$'000 |
|----------------------------------|---|--|--------------------------------|---------------------------------------|
| RACQ Superannuation Fund 2007(i) | 25,709 | 16,708 | 9,001 | 14,590 |
| RACQ Superannuation Fund 2006 | 23,843 | 17,450 | 6,393 | 14,469 |

(i) Plan assets at net market value, accrued benefits and vested benefits have been calculated at 30 June 2007 being the date of the most recent financial statements of the plan. This calculation involves the application of assumptions by the Fund's actuary who exercises judgement in arriving at these assumptions.

15 Employee benefits (cont'd)

| | \$'000 |
|--|--------------|
| <i>Movement in defined benefit plan surplus</i> | |
| Net surplus for defined benefit obligations 30/06/2006 | 6,393 |
| Contributions received | 907 |
| Experience adjustments on plan assets | 1,852 |
| Experience adjustments on plan liabilities | (151) |
| Net surplus for defined benefit obligations 30/06/2007 | 9,001 |
| Net experience July to December 2007 | (1,314) |
| Net surplus for defined benefit obligations 31/12/2007 | <u>7,687</u> |

Actuarial assumptions

- Discount rate 5.30% pa
- Rate of investment returns 6.00% pa
- Rate of salary increases 4.00% pa
- Over the long term credited interest rates will approximate the investment returns of the assets backing the defined benefit liabilities
- Rates of death and disablement and early retirement and resignation based on documented past experience
- Management expenses assumed to be 2.5% of members' salaries
- Contributions tax of 15% on employer contributions including members packaged contributions

The major categories of plan assets as a percentage of total plan assets are as follows:

- Australian equities 25.20%
- International equities 13.50%
- Australian fixed interest securities 23.30%
- Cash 30.80%

16 Reserves

| | RACQ | | RACQ and controlled entities | |
|------------------------|----------------|----------------|---------------------------------|----------------|
| | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 |
| Investment revaluation | – | – | 54,134 | 44,777 |
| General | 52,542 | 52,542 | 42,197 | 42,197 |
| | <u>52,542</u> | <u>52,542</u> | <u>96,331</u> | <u>86,974</u> |

Reconciliation of movements during the year**(a) Investment revaluation reserve**

| | | | | |
|--|---|---|---------------|---------------|
| Balance at the beginning of year | – | – | 44,777 | 37,864 |
| Increase in market value of available-for-sale financial assets during year (net of tax) | – | – | 9,357 | 6,913 |
| Balance at end of year | – | – | <u>54,134</u> | <u>44,777</u> |

(b) General reserve

| | | | | |
|----------------------------------|---------------|---------------|---------------|---------------|
| Balance at the beginning of year | 52,542 | 52,542 | 42,197 | 42,197 |
| Balance at end of year | <u>52,542</u> | <u>52,542</u> | <u>42,197</u> | <u>42,197</u> |
| Total reserves | <u>52,542</u> | <u>52,542</u> | <u>96,331</u> | <u>86,974</u> |

16 Reserves (cont'd)

Investment revaluation reserve

As a result of the nomination of certain 'other investments' being as available-for-sale assets under AASB139, movements in fair value of these assets are adjusted through this reserve.

General reserve

The amount standing to the credit of the general reserve resulted from prior period allocations of retained profits for non-specific purposes.

17 Retained profits

| | RACQ | | RACQ and controlled entities | |
|---|----------------|----------------|------------------------------|----------------|
| | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 |
| Retained profits at beginning of year | 253,126 | 229,228 | 393,963 | 320,842 |
| Net profit attributable to members of the parent entity | 28,670 | 23,898 | 62,448 | 73,121 |
| Retained profits at the end of the year | 281,796 | 253,126 | 456,411 | 393,963 |

18 Leases and commitments

Operating lease expense commitments

Future operating lease commitments not provided for in the financial statements and payable:

| | | | | |
|--|-------|-------|-------|-------|
| Within one year | 891 | 956 | 891 | 956 |
| One year or later and no later than five years | 1,903 | 1,888 | 1,903 | 1,888 |
| Later than five years | – | 150 | – | 150 |
| | 2,794 | 2,994 | 2,794 | 2,994 |

The consolidated entity leases property under operating leases expiring within one to five years. Leases generally provide the consolidated entity with a right to renewal at which time all terms are renegotiated.

Capital expenditure commitments

Contracted but not provided for and payable:

| | | | | |
|-----------------|-------|-------|-------|-------|
| Within one year | 1,565 | 1,400 | 1,565 | 1,400 |
|-----------------|-------|-------|-------|-------|

Operating lease revenue as lessor

Future revenues not provided for in the financial statements

| | | | | |
|--|-------|-------|--------|--------|
| Within one year | 1,179 | 1,126 | 3,103 | 3,049 |
| One year or later and no later than five years | 4,810 | 4,678 | 8,821 | 12,963 |
| | 5,989 | 5,804 | 11,924 | 16,012 |

The consolidated entity leases out investment property under operating leases. During the year income of \$3,103,000 was recognised (2006: \$2,823,000).

Direct operating expenses including repairs and maintenance associated with holding these investment properties were \$230,000 (2006: \$182,000).

19 Financial instruments

Fair values of financial assets and liabilities

Valuation approach

Fair values of financial assets and liabilities are determined by the consolidated entity on the following basis:

- Listed shares, unsecured and convertible notes, and government and semi-government stocks and bonds are traded in an organised financial market. The fair values of these investments, except convertible notes, are determined by valuing them at the current quoted market bid price. The fair values of convertible notes are determined by valuing them at the current quoted market offer price, with the debt and equity conversion option component parts separately valued.
- Monetary financial assets and financial liabilities not readily traded in an organised financial market are determined by valuing them at the future cash flows or amounts due to or from third parties. Cash flows are discounted using standard valuation techniques at the applicable market yield having regard to the timing of the cash flows.
- The carrying amounts of the following financial assets and financial liabilities approximate their fair value:
 - Cash
 - Receivables
 - Inventories
 - Unearned subscriptions
 - Payables
 - Interest bearing liabilities
 - Employee benefits.

Risk management

The Company and the consolidated entity are not materially exposed to foreign exchange risk or commodity price risk. The Company and the consolidated entity have not entered into any off-balance sheet financial instruments during the year ended 31 December 2007.

Credit risk

The credit risk on financial assets, excluding investments, of the consolidated entity that have been recognised on the Balance Sheet, is the carrying amount, net of any provision for impairment. The consolidated entity minimises concentrations of credit risk by undertaking transactions with a large number of customers. The consolidated entity is not materially exposed to any individual customer or counterparty. The credit risk on investments is minimised by investing primarily in major financial institutions and blue-chip equities.

The Company's and consolidated entity's maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

| | Carrying Amount | | | |
|-----------|-----------------|----------------|------------------------------|----------------|
| | RACQ | | RACQ and controlled entities | |
| | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 |
| Australia | 368,657 | 315,084 | 4,055 | 2,450 |

The Company's and consolidated entity's maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

| | | | | |
|--|---------|---------|-------|-------|
| Receivables due from controlled entities | 364,906 | 312,923 | – | – |
| Receivables due from associate | 2,024 | 909 | 2,024 | 923 |
| Trade receivables | 1,727 | 1,252 | 2,031 | 1,527 |
| | 368,657 | 315,084 | 4,055 | 2,450 |

19 Financial instruments (cont'd)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

| | RACQ | | RACQ and controlled entities | |
|------------------------|----------------|----------------|------------------------------|----------------|
| | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 |
| Balance at 1 January | 11 | 11 | 41 | 41 |
| Balance at 31 December | 11 | 11 | 41 | 41 |

Based on historic default rates, management believes that no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 60 days.

Interest rate risk

The consolidated entity's investments in fixed-rate debt securities are exposed to a risk of change in their fair values due to changes in interest rates. Investments in equity securities and short-term receivables and payables are not exposed to interest rate risk.

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

| 2007 | Note | Effective interest rate | Fixed interest maturing in: | | | | Total |
|-------------------------------|------|-------------------------|----------------------------------|--------------------------|-----------------------------|--------------------------------|---------|
| | | | Floating interest rate \$'000 | 1 year or less \$'000 | Over 1 to 5 years \$'000 | Non-interest bearing \$'000 | |
| <i>Financial assets</i> | | | | | | | |
| Cash | 5 | – | 650 | – | – | – | 650 |
| Receivables | 6 | – | – | – | – | 4,055 | 4,055 |
| <i>Other financial assets</i> | | | | | | | |
| Investments – current | 8 | 6.02% | 2,321 | 111,686 | – | – | 114,007 |
| Investments – non-current | 8 | 6.30% | – | – | 199,533 | 167,121 | 366,654 |
| | | | 2,971 | 111,686 | 199,533 | 171,176 | 485,366 |
| <i>Financial liabilities</i> | | | | | | | |
| Payables | 14 | – | – | – | – | 21,571 | 21,571 |
| Employee benefits | 15 | – | – | – | – | 9,848 | 9,848 |
| | | | – | – | – | 31,419 | 31,419 |

| 2006 | Note | Effective interest rate | Fixed interest maturing in: | | | | Total |
|-------------------------------|------|-------------------------|----------------------------------|--------------------------|-----------------------------|--------------------------------|---------|
| | | | Floating interest rate \$'000 | 1 year or less \$'000 | Over 1 to 5 years \$'000 | Non-interest bearing \$'000 | |
| <i>Financial assets</i> | | | | | | | |
| Cash | 5 | – | 1,129 | – | – | – | 1,129 |
| Receivables | 6 | – | – | – | – | 2,450 | 2,450 |
| <i>Other financial assets</i> | | | | | | | |
| Investments – current | 8 | 6.03% | 1,012 | 107,023 | – | – | 108,035 |
| Investments – non-current | 8 | 5.91% | 2,330 | – | 156,541 | 134,210 | 293,081 |
| | | | 4,471 | 107,023 | 156,541 | 136,660 | 404,695 |
| <i>Financial liabilities</i> | | | | | | | |
| Payables | 14 | – | – | – | – | 18,834 | 18,834 |
| Employee benefits | 15 | – | – | – | – | 9,362 | 9,362 |
| | | | – | – | – | 28,196 | 28,196 |

19 Financial instruments (cont'd)**Liquidity risk**

The contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements are limited to trade and other payments of the Company with a carrying amount of \$48,171,000 as at 31 December 2007 (2006:\$12,340,000) and the consolidated entity with a carrying amount of \$21,571,000 as at 31 December 2007 (2006:\$18,834,000). These include short-term payables and employee benefits with a carrying amount of \$6,533,000 which will result in contractual cash outflows equalling the carrying amounts within 2 months or less, and long-term employee benefits in relation to long service leave which will result in contractual cash outflows with a carrying amount of \$2,829,000 within the next 2 to 10 years.

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss. At the reporting date the interest rate profile of the Company's and Group's interest bearing financial instruments was:

| | Carrying Amount | | | |
|-------------------------------|-----------------|-----------------|---------------------------------|----------------|
| | RACQ | | RACQ and controlled entities | |
| | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 |
| Fixed rate instruments | | | | |
| Financial assets | 1,727 | 1,252 | 310,571 | 268,433 |
| Financial liabilities | (12,457) | (12,340) | (21,571) | (18,834) |
| | (10,730) | (11,088) | 289,000 | 249,599 |

Fair values**Fair values versus carrying amounts**

The fair value of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

| | 31 December 2007 | | 31 December 2006 | |
|--|------------------------------|-------------------------|------------------------------|-------------------------|
| | Carrying amount \$'000 | Fair Value \$'000 | Carrying amount \$'000 | Fair Value \$'000 |
| Surplus – Defined benefits superannuation fund | 7,687 | 7,687 | 9,034 | 9,034 |
| Investment property | 886 | 886 | 896 | 896 |
| Loans and receivable | 369 | 369 | 315 | 315 |
| Cash & cash equivalents | 650 | 650 | 1,129 | 1,129 |
| Trade & other payables | (48,171) | (48,171) | (12,340) | (12,340) |
| | (38,579) | (38,579) | (966) | (966) |

19 Financial instruments (cont'd)

RACQ and controlled entities

| | 31 December 2007 | | 31 December 2006 | |
|--|---------------------------|----------------------|---------------------------|----------------------|
| | Carrying amount \$'000 | Fair Value \$'000 | Carrying amount \$'000 | Fair Value \$'000 |
| Surplus – Defined benefits superannuation fund | 7,687 | 7,687 | 9,034 | 9,034 |
| Equity securities available-for-sale | 149,861 | 149,861 | 116,953 | 116,953 |
| Debt securities for sale | 301,540 | 301,540 | 259,506 | 259,506 |
| Interest bearing deposit available-for-sale | 7,000 | 7,000 | 7,400 | 7,400 |
| Other unlisted investment available-for-sale | 14,573 | 14,573 | 8,223 | 8,223 |
| Investment property | 14,951 | 22,800 | 15,252 | 22,800 |
| Investment accounted for using equity method | 98,360 | 98,360 | 113,678 | 113,678 |
| Loans and receivable | 4,056 | 4,056 | 2,450 | 2,450 |
| Cash and cash equivalents | 650 | 650 | 1,129 | 1,129 |
| Trade & other payables | (21,571) | (21,571) | (18,834) | (18,834) |
| | 577,107 | 584,956 | 514,791 | 522,339 |

20 Auditors' remuneration

| | RACQ | | RACQ and controlled entities | |
|-------------------------|---------------|---------------|------------------------------|---------------|
| | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ |
| Audit services: | | | | |
| Auditors of the Company | 88,800 | 84,500 | 88,800 | 84,500 |
| Regulatory audits | – | – | 4,200 | 4,000 |
| IFRS compliance audit | – | 9,065 | – | 9,065 |
| | 88,800 | 93,565 | 93,000 | 97,565 |
| Other services: | | | | |
| Tax compliance services | 28,300 | 9,500 | 28,300 | 10,408 |
| Other services | 45,175 | 7,087 | 45,175 | 7,087 |
| | 73,475 | 16,587 | 73,475 | 17,495 |

21 Controlled entities

Particulars in relation to the controlled entities

| | Interest held | |
|---|---------------|-----------|
| | 2007 % | 2006 % |
| Parent entity | | |
| The Royal Automobile Club of Queensland Limited | | |
| Controlled entities | | |
| RACQ Investments Pty Ltd | 100 | 100 |
| The Road Ahead Publishing Co Pty Ltd | 100 | 100 |
| RACQ Operations Pty Ltd | 100 | 100 |
| RACQ Investments No.2 Pty Ltd | 100 | 100 |
| RACQ Community Fund Pty Ltd | 100 | 100 |
| AAA Rewards Pty Ltd | 100 | 100 |
| RACQ Charitable Trust Fund | 100 | 100 |

21 Controlled entities (cont'd)

Shares in RACQ Operations Pty Ltd and RACQ Investments No.2 Pty Ltd are held directly by the parent entity, The Royal Automobile Club of Queensland Limited. RACQ Investments Pty Ltd and The Road Ahead Publishing Co Pty Ltd are held indirectly by the parent entity, The Royal Automobile Club of Queensland Limited, through its 100% interest in RACQ Operations Pty Ltd.

22 Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit, and lodgment of financial reports, and directors' report.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act 2001, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The subsidiaries subject to the Deed are:

- RACQ Operations Pty Ltd
- RACQ Investments Pty Ltd
- RACQ Investments No.2 Pty Ltd
- The Road Ahead Publishing Co Pty Ltd.

As all operating subsidiaries are a party to the Deed, the consolidated income statement and consolidated balance sheet presented in this financial report presents the financial performance and position of the Company and subsidiaries which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 31 December 2007.

23 Investments accounted for using the equity method – RACQ Insurance Limited

| | Consolidated | |
|--|-----------------|----------|
| | 2007 | 2006 |
| | \$'000 | \$'000 |
| The consolidated entity accounts for investments in associates using the equity method. | | |
| Share of net profit accounted for using the equity method included in the income statement | 27,182 | 40,111 |
| Results of associate | | |
| Share of associate's revenue | 271,262 | 264,985 |
| Share of associate's operating profit before income tax | 38,047 | 56,726 |
| Share of associate's income tax expense | (10,865) | (16,615) |
| Share of associate's net profit – equity accounted | 27,182 | 40,111 |
| Share of post acquisition retained profits and reserves attributable to associate | | |
| Share of associate's retained profits at the beginning of the financial year before provision for dividend | 72,737 | 45,126 |
| Share of net profit of associate in current year | 27,182 | 40,111 |
| Dividends from associate | (42,500) | (12,500) |
| Share of associate's retained profits at the end of the financial year | 57,419 | 72,737 |
| Contribution of share capital | 20,000 | 20,000 |
| Share of associate's general reserve at the end of the financial year | 17,500 | 17,500 |
| Cost of investment in associate | 3,441 | 3,441 |
| Equity accounted carrying amount of investment | 98,360 | 113,678 |

23 Investments accounted for using the equity method – RACQ Insurance Limited (cont'd)

| | Consolidated | |
|--|----------------|----------------|
| | 2007 \$'000 | 2006 \$'000 |
| Movements in carrying amount of investment | | |
| Carrying amount of investment in associate at the beginning of the financial year | 113,678 | 86,067 |
| Share of associate's net profit | 27,182 | 40,111 |
| Contribution of additional share capital | – | – |
| Dividend received from associate | (42,500) | (12,500) |
| Carrying amount of investment in associate at the end of the financial year | 98,360 | 113,678 |
| Summary performance and financial position of associate – parent entity share | | |
| The consolidated entity's share of aggregate assets, liabilities and profit of the associate are as follows: | | |
| Net profit – as reported by associate | 27,182 | 40,111 |
| Current assets | 197,332 | 176,621 |
| Non-current assets | 263,316 | 277,571 |
| Total assets | 460,648 | 454,192 |
| Current liabilities | 196,596 | 187,529 |
| Non-current liabilities | 165,692 | 152,985 |
| Total liabilities | 362,288 | 340,514 |
| Net assets – as reported by associate | 98,360 | 113,678 |
| Net assets – equity adjusted and carrying amount of investment in associate at year end | 98,360 | 113,678 |

Commitments and contingent liabilities

The associate has no material commitments or contingent liabilities that require disclosure.

Details of the investment in the associate are as follows:

| Name | Principal activities | Balance date | Ownership Interest | | Investment carrying amount | |
|------------------------|----------------------|--------------|--------------------|-----------|----------------------------|----------------|
| | | | 2007 % | 2006 % | 2007 \$'000 | 2006 \$'000 |
| RACQ Insurance Limited | General insurance | 31 December | 50 | 50 | 98,360 | 113,678 |

24 Related parties

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period

Directors

During the financial year, the Directors of the Company were:

| | |
|---------------------------------------|-----------------------------------|
| J-A Schafer (Chairman) | A M Gambling |
| R J Pietsch (Deputy Chairman) | D G Howe |
| N W F Alexander | G C Leddy |
| F L Barker | P K Long |
| J W Buckby (Resigned 22 January 2008) | J M Taylor (Resigned 23 May 2007) |

24 Related parties (cont'd)**Executives**

I A Gillespie (Chief Executive Officer and Secretary)
 R Z Ayling (General Manager People – appointed 10 August 2007)
 N J Condon (General Manager Corporate Services)
 G J Fites (General Manager External Relations)
 I L Mitchell (General Manager Commercial – commenced 24 September 2007)
 D H O'Sullivan (Chief Financial Officer – retired 30 November 2007)
 B E Rice (General Manager Technology)
 P V Williams (General Manager Operations)

Transactions with key management personnel

No key management personnel have entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving key management personnel interests subsisting at year-end.

Key management personnel of the Company and consolidated entity may obtain membership and insurance services from the Club and/or the associated company, RACQ Insurance Limited, on the same terms and conditions as those obtained by Company employees. Key management personnel may also obtain other services and products from the Company on terms and conditions no more favourable than those available to members and are immaterial in nature.

There are no loans to/from key management personnel.

Remuneration of key management personnel

| | RACQ | | RACQ and controlled entities | |
|--------------------------|----------------|----------------|------------------------------|----------------|
| | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 |
| Short-term benefits | 1,102 | 1,316 | 1,750 | 1,707 |
| Post-employment benefits | 429 | 312 | 607 | 353 |
| Other long term benefits | (57) | (42) | (45) | 153 |
| Termination benefits | 360 | 211 | 360 | 211 |
| | 1,834 | 1,797 | 2,672 | 2,424 |

The remuneration paid to Directors by the Company is in accordance with its limit of \$600,000 (2006: \$400,000) as approved by the members of RACQ.

The aggregate amounts receivable from, and payable to, related parties by the Company at balance date were:

| | The Company | |
|----------------------------------|----------------|----------------|
| | 2007 \$'000 | 2006 \$'000 |
| <i>Receivables</i> | | |
| RACQ Insurance Limited | 2,024 | 909 |
| RACQ Operations Pty Ltd | 299,742 | 257,977 |
| RACQ Investments Pty Ltd | 47,515 | 29,974 |
| RACQ Investments No.2 Pty Ltd | – | 6,786 |
| Road Ahead Publishing Co Pty Ltd | 17,648 | 18,186 |
| | 366,929 | 313,832 |
| <i>Payables/borrowings</i> | | |
| RACQ Charitable Trust Fund | 7 | 5 |
| RACQ Investments No 2 Pty Ltd | 35,714 | – |
| | 35,721 | 5 |

24 Related parties (cont'd)

All dealings with related parties are in the ordinary course of business and on normal terms and conditions. No interest was charged or received on receivables or payables from any related parties of the Company, and all amounts are at call.

Included in the current year consolidated results is a charge made by the Company and a controlled entity to RACQ Insurance Limited for services amounting to \$33,162,625 (2006: \$30,723,869).

25 Parent entity structure

The parent entity, The Royal Automobile Club of Queensland Limited, is a company limited by guarantee and has no share capital. In the event of winding up, members are liable to the amount of \$2.10 per member. The Company has 1,245,318 (2006: 1,200,920) guaranteeing members.

26 Dividends

Dividend Franking Account

Balance of franking account adjusted for franking credits which will arise from the payment of income tax provided for in the financial statements.

| Note | RACQ | | RACQ and controlled entities | |
|---|----------------|----------------|------------------------------|----------------|
| | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 |
| Class C 30% (2006: 30%) franking credits – Company | 69,884 | 69,442 | 69,884 | 69,442 |
| Class C 30% (2006: 30%) franking credits – Subsidiaries | – | – | 53,847 | 31,519 |
| | 69,804 | 69,442 | 123,731 | 100,961 |

RACQ is a mutual company that does not pay dividends and accordingly is unable to utilise or distribute the franking account credits.

Franking credits available have been measured in accordance with the New Business Tax System (Imputation) Act 2002 on the income tax paid basis.

27 Notes to the statements of cash flows

(i) Reconciliation of cash

For the purposes of the Statements of Cash Flows, cash includes cash on hand and at bank, net of outstanding bank overdrafts. Cash as at the end of the financial year, as shown in the Statements of Cash Flows, is reconciled to the related items in the balance sheet as follows:

| | | | | | |
|---------------------------|---|-----|-------|-----|-------|
| Cash and cash equivalents | 5 | 650 | 1,129 | 650 | 1,129 |
|---------------------------|---|-----|-------|-----|-------|

(ii) Reconciliation of operating profit after income tax to net cash provided by operating activities

| | | | | |
|---|---------------|--------|---------------|----------|
| Profit for the period | 28,670 | 23,898 | 62,448 | 73,121 |
| <i>Add/(less) items classified as investing activities:</i> | | | | |
| Loss/(profit) on sale of property, plant and equipment and investments | (465) | (274) | (4,497) | (3,801) |
| Dividends received | – | – | (4,886) | (4,567) |
| Rent received | (1,171) | (955) | (3,103) | (2,823) |
| Interest received | (135) | (116) | (17,548) | (14,275) |
| <i>Add/(less) non cash items:</i> | | | | |
| Share of associate's net profit (net of dividends received) | – | – | 15,318 | (27,611) |
| Depreciation | 4,820 | 4,272 | 5,131 | 4,574 |
| Increase/(decrease) in income tax payable | 301 | 30 | 263 | (1,503) |
| Net cash provided by/(used in) operating activities before change in net assets and liabilities | 32,020 | 26,855 | 53,126 | 23,115 |

27 Notes to the statements of cash flows (cont'd)**(ii) Reconciliation of operating profit after income tax to net cash provided by operating activities (cont'd)**

| | RACQ | | RACQ and controlled entities | |
|--|----------------|----------------|------------------------------|----------------|
| | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 |
| <i>Change in assets and liabilities:</i> | | | | |
| Inventory | (50) | (2) | (81) | (30) |
| Receivables | (475) | (27) | (504) | (27) |
| Prepayments | – | – | (465) | – |
| Unearned subscriptions | 3,625 | 3,936 | 3,625 | 3,936 |
| Payables | 117 | (1,233) | 2,737 | (250) |
| Other investments | 1,347 | (610) | 1,347 | (610) |
| Provision for employee benefits | 46 | 157 | 486 | 520 |
| Future income tax benefit/provision for deferred tax | (404) | 183 | (1,030) | (1,545) |
| Loans from/to controlled and associated entities | (17,386) | (23,494) | (1,103) | (178) |
| Net cash provided by/(used in) operating activities | 18,840 | 5,765 | 58,138 | 24,931 |

28 Amount, timing and uncertainty of cash flows

The major source of revenue for RACQ and controlled entities is membership subscription income. The only significant risk to profit from membership subscription income is the cost of members' demand for road service exceeding this revenue. This risk is mitigated predominantly through the use of a fixed cost operating structure based on estimated future demand. Estimated future demand can depend on a number of factors that cannot be predicted with significant accuracy such as adverse weather conditions or upward volatility in the price of fuel. RACQ Group budgets contain amounts conservatively calculated to cover the cost of such factors that in the past have generally proved more than adequate.

In addition, the method of calculating earned subscription income by it being spread using a time based formula so as to calculate that portion of the subscription applicable to the unexpired period of a membership term adds certainty to the future revenue.

Although members are spread across the state of Queensland there is substantial concentration of members in the south east corner of the state and in provincial cities and towns where population density is higher.

It is our belief that the terms and conditions of membership do not have a material effect on the amount, timing and uncertainty of cash flows.

The already strong cash flows of RACQ and controlled entities are further supported by a program of regular maturities of fixed interest investments throughout the year. Risks associated with consolidated entities investment holdings are outlined in Note 19.

The consolidated entity also has a 50% investment in RACQ Insurance Limited. Dividends from RACQ Insurance depend on that company's performance. RACQ Insurance underwrites personal lines of insurance comprising home, motor and compulsory third party policies. The risks of underwriting are managed by RACQ Insurance through a number of risk management strategies, the primary one being reinsurance.

There are no other significant risks affecting the amount, timing and uncertainty of cash flows.

Directors' Declaration

- 1 In the opinion of the Directors of The Royal Automobile Club of Queensland Limited:
 - (a) the financial statements and notes, set out on pages 20 to 46, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 31 December 2007 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 There are reasonable grounds to believe that the Company and the subsidiaries identified in Note 22 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to ASIC Class Order 98/1418.

Signed in accordance with a resolution of the Directors:



J A Schafer

CHAIRMAN

DATED AT BRISBANE

THIS 11TH DAY OF MARCH 2008

Independent auditor's report to the members of The Royal Automobile Club of Queensland Limited



Report on the financial report

We have audited the accompanying financial report of The Royal Automobile Club of Queensland Limited (the Company), which comprises the balance sheets as at 31 December 2007, and the income statements, statements of recognised income and expenses and cash flow statements for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 28 and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the consolidated entity's financial position and of their performance.

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

Auditor's opinion

In our opinion:

- (a) the financial report of The Royal Automobile Club of Queensland Limited is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and the Group's financial position as at 31 December 2007 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

KPMG

KPMG

A handwritten signature in blue ink that reads 'Scott Guse'.

Scott Guse

PARTNER

BRISBANE 11 MARCH 2008



Lead Auditor's Independence Declaration

under Section 307C of the Corporations Act 2001

To: the directors of The Royal Automobile Club of Queensland Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2007 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

A handwritten signature in blue ink that reads 'Scott Guse'.

Scott Guse

PARTNER

BRISBANE 11 MARCH 2008

Notice of Annual General Meeting

NOTICE is hereby given that the 103rd Annual General Meeting of The Royal Automobile Club of Queensland Limited ACN 009 660 575 will be held at the Sebel Citigate Hotel, King George Square, Brisbane at 5.30 pm on Tuesday 27th May 2008.

Business

1. Consideration of Annual Financial Report and the Directors' Report, together with the Auditor's Report.

2. Election for the Board in the South West Zone.

- Reading by the Returning Officer of the Report to the Chairman.
- Declaration by the Chairman of Election of Board Member.

3. Election for the Board in the North Zone.

- Reading by the Returning Officer of the Report to the Chairman.
- Declaration by the Chairman of Election of Board Member.

4. Acknowledgement of the Patron.

5. Consideration and resolution of the following resolution proposed by the Board of RACQ as a special resolution:

"That the Constitution of the Company be amended as follows:

- 5.1.** By deleting from clause 1.1 the following definition: 'Company: The Royal Automobile Club of Queensland Limited ACN 009 660 575, a company incorporated in Queensland and having its registered office at RACQ House, 300 St Paul's Terrace, Fortitude Valley, QLD 4006.' And inserting the following new definition in its place: 'Company: The Royal Automobile Club of Queensland Limited (ACN 009 660 575).'
- 5.2.** By deleting from Clause 1.1 the following definition: 'Officer: an officer as defined in section 82A of the Corporations Act 2001.' And inserting the following new definition in its place: 'Officer: as defined by section 9 of the Corporations Act 2001.'
- 5.3.** By deleting the words 'his', 'he' and 'him' wherever such words appear throughout the Constitution in a manner limiting of gender and replaced respectively with the words 'his or her', 'he or she' and 'him or her'
- 5.4.** By deleting the text of Sub-clause 11.18 (a), and replacing such text with the following: 'All voting shall be carried out by means of a voting paper which shall be in such form as determined by the Board from time to time. The voting paper shall be given or made available to each eligible member in accordance with Clause 23.'
- 5.5.** By deleting the text of Clause 21.3, and replacing such text with the following: 'The Company will provide, or make available, to all persons entitled to receive notice of general meetings all accounts, reports and statements as may be required to be provided or made available by the Corporations Act 2001. Such accounts, reports and

statements may be provided or made available in any manner permitted by the Act.'

- 5.6.** By inserting the following words at the start of Clause 23.1: 'In addition to any other form of notice permitted by this Constitution or by the Corporations Act 2001.' And by adding a new Sub-clause 23.1 (g) at the end of Clause 23.1 as follows: 'by any other legally permissible means.'
- 5.7.** By the deletion of Clauses 23.2 and 23.3 and the renumbering of Clauses 23.4 and 23.9
- 5.8.** By deleting the text of the current Clause 23.4 and replacing such text with the following: 'Where two or more persons are joint members, notice validly served upon one of them will be deemed to constitute valid service upon all of them.'
- 5.9.** By deleting the text of the current Clause 23.7 and replacing such text with the following: 'Any notice or document served upon any member under this Constitution will notwithstanding that member is then deceased, and whether or not the Company has notice of that Member's death, be deemed to have been duly served whether Membership is held solely or jointly with other persons, until some other person is registered in place of the deceased Member as the holder or joint holder thereof. Service on the deceased's heirs, executors or administrators will for the purposes of this Constitution be deemed sufficient service of that notice.'
- 5.10.** By deleting from the current Clause 23.8 the following sentence: 'Notice of every general meeting of the Company must be given in a manner authorised by Clause 23.12 or as otherwise allowed by the Corporations Act 2001 to:'. And inserting the following new sentence in its place: 'Notice of every general meeting of the Company must be served in a manner authorised by clause 23 or as otherwise allowed by the Corporations Act 2001 to:'
- 5.11.** By deleting from the current Sub-clause 24.3 (a) (v) the following sentence: 'a contravention of sections 182, 183 or 184 of the Corporations Act 2001; or'. And inserting the following new sentence in its place: 'a contravention of sections 180, 181, 182, 183 or 184 of the Corporations Act 2001; or'
- 5.12.** And by amending the final sentence in Sub-clause 24.3 (a) so that it becomes Sub-clause 24.3(b) in its own right".

Other matters

6. Consideration of any matters of a general nature that may be properly raised by members at the meeting.



BY ORDER OF THE BOARD
I A Gillespie
SECRETARY
11 MARCH 2008

Explanatory note

Business Item 5 – Explanation to members of the reasons for proposing amendments to the Constitution.

Item 5.1:

This change is recommended due to the fact that since the last constitutional revision the RACQ's registered office has moved from 300 St Paul's Terrace, Fortitude Valley to 2649 Logan Rd, Eight Mile Plains.

Item 5.2:

This change is recommended due to the fact that since the last constitutional revision section 82A of the Corporation Act 2001 has been repealed.

Item 5.3:

This change has been recommended by the Board to ensure that RACQ's Constitution is gender inclusive, and does not give any impression of gender exclusivity.

Items 5.4, 5.5, 5.6, 5.7, 5.8, 5.9 and 5.10:

These changes are recommended to allow RACQ to utilise the most appropriate, contemporary and socially responsible means of communicating with its members in a variety of circumstances. By way of example, RACQ's Constitution currently requires that the Company post a hard copy of its Annual Report to every member. These changes to the Constitution will ensure that RACQ is no longer restricted in the manner by which it must communicate with its members, and therefore is free to exercise greater discretion in effecting such communications, including by electronic means, as permitted by the Corporations Act 2001.

Item 5.11:

This change has been recommended by the Board so as to expand the limitation on the indemnification of RACQ's corporate officers in line with current corporate governance expectations and practices.

Item 5.12:

This change has been recommended by the Board in order to correct a drafting error contained within the previously amended version of the Constitution.

Your attendance is important

The RACQ Annual General Meeting is to be held at 5.30pm Tuesday 27th May 2008 at the Sebel Citigate Hotel, King George Square, Brisbane.

If you plan to attend, please bring the Part A meeting registration form (on the following page) to speed your admission.

If you do not plan to attend the meeting you are encouraged to appoint a person to attend and vote on your behalf as your proxy. Do this by completing and returning the part B proxy form. To be effective the proxy form must reach RACQ at the address below by 5.30pm Friday 23rd May 2008.

A proxy holder should bring this Part A meeting registration form to speed admission to the meeting.

If you are representing a member by power of attorney, please bring the original power of attorney or a certified copy, unless we have already received it.

If you are to represent a company, please bring evidence of your authority.

Note: New members who have joined RACQ after 31 January 2008 are not entitled to vote at the AGM nor appoint a proxy, in accordance with the RACQ Constitution.

Further information

If you need any further information about this form or attendance at the RACQ Annual General Meeting, please contact:

The Secretary
RACQ
P.O. Box 4, Springwood, QLD 4127
Telephone: (07) 3361 2312.

To appoint your proxy

Complete and return the part B Proxy form on the following page. Nominate the person who is to attend and vote on your behalf at the meeting by following the steps marked on the form:

1. Your name, address and membership number (print in full)

Print in this box your full name, address and membership number.

2. Proxy's name (print in full)

Print in this box the full name of the person you wish to appoint as your proxy (who need not be a member). Please do not put your own name here – members cannot appoint themselves.

You may appoint the chairman of the meeting to be your proxy simply by not completing the proxy's name box.

3. Directors to proxy (optional)

You may, if you choose, direct your proxy how to vote on particular resolutions. Do this by marking the For, Against or Abstain box. The direction will be effective on a poll, and may not be on a show of hands. Your vote will be invalid if a mark is made in more than one box for a particular resolution. If you do not complete this section directing your proxy on how to vote, the duly appointed proxy may vote as he or she thinks fit or abstain from voting.

4. Sign here

The proxy form must be signed by you as the member or by your attorney or if the member is a corporation under its common seal or otherwise in accordance with the Corporations Act 2001, or under the hand of an authorised officer or attorney who has not received notice of revocation.

If this proxy is signed by the attorney then the authority under which the appointment was signed or a certified copy of the authority must either have been received previously by the Company, or be enclosed with this proxy.

5. Deliver or send to RACQ

Your completed original Part B Proxy form should be forwarded as follows:

In Person: The Secretary
RACQ
Reception Desk, RACQ Corporate Offices
2649 Logan Road, Eight Mile Plains, QLD 4113

By Mail: The Secretary
RACQ
Reply Paid 3131, Logan City DC, QLD 4114

By Facsimile: The Secretary
RACQ
(07) 3341 8024

to be received by 5.30pm Brisbane time, Friday 23rd May, 2008.

A copy of the proxy form may be used.



Part A: Meeting Registration Form

For RACQ's Annual General Meeting on 27th May 2008.

Bring with you if attending the meeting.

Please complete all relevant details in BLOCK letters.

Name _____

Address _____

City _____

State _____ Postcode _____

Membership No. _____

Your vote is important

If you plan to attend, please bring this Part A Registration form with you to speed admission to the meeting.

If you do not plan to attend the meeting, you are encouraged to complete and return the Part B Proxy form (at right) to appoint a person who may attend and vote on your behalf as your proxy.

A proxy holder should bring this Part A Registration form to speed admission to the meeting.

For more information, see previous page.



Part B: Proxy Form

For RACQ's Annual General Meeting on 27th May 2008.

Please complete all relevant details in BLOCK letters.

To Appoint Your Proxy:

1. Your name, address and membership number (print in full)

Member Name _____

Address _____

City _____

State _____ Postcode _____

Membership No. _____

2. Proxy's name (print in full)

If you wish to appoint the Chairman of the Meeting as your proxy, do not write here. Do not put your own name here.

I Appoint _____

OR in that person's absence the Chairman of the meeting as my proxy to vote on my behalf at the Annual General Meeting to be held at 5.30pm Tuesday 27th May 2008, and at any adjournment of the meeting.

3. Directions to proxy (optional)

If directing proxy, please tick relevant box.

Business

Item 5 – That the Constitution of the Company be amended

For

Against

Abstain

4. Sign here

Signed _____ Dated _____