ANNUAL REPORT

2017-2018

NEW ZEALAND AUTOMOBILE ASSOCIATION INCORPORATED

1.67M AA Members

54% Licensed Drivers

3.7%
MEMBERSHIP GROWTH

500,000+
Roadside assists

1% Increase in callouts

1.3M
DRIVER AND VEHICLE LICENSING TRANSACTIONS

More than 76% OF ALL DRIVER LICENCES

50,000+
FREE LEARNER
Driving lessons

AA's $3M
annual investment in new drivers

$67.74
Average AA Member saving

$15.20
more than Average AA Membership cost


AA Chief Executive Brian Gibbons

Our **multiple SUCCESSES**

The AA has now marked the milestone of celebrating its 115th year of service, and as we reflect on the past twelve months, it's pleasing to consider the success that we have seen in three different but equally important areas.

Many companies in New Zealand regard the success of each year in purely financial terms, which reflects their sole purpose to drive value and report back to shareholders. Indeed, seen in that light, the Association has had a strong year, and this forms one of its successes.

But the AA is unique in its responsibility to the community, and its growing service delivery which to our mind is the second accomplishment for the year. Our Members join for a helping hand in their time of need, as well as the many additional benefits they have come to enjoy. More than half a million calls for roadside assistance were answered this financial year, and more than 133,000 Members have taken up their offer of a free annual eye examination with Specsavers, alongside an ever increasing range of discounts in areas as diverse as insurance, entertainment and travel.

All this has been achieved without the need to adjust the annual subscription, thanks to the Association's commercial activities which continue to enable the expansion of free services and discounts for Members. This clearly resonates with New Zealanders.

That brings us to the third standout success for the year - that of Membership growth, which is very much the outcome of growing the diversity of the Association's services, while holding the subscription cost steady.

An increase in Membership is the best barometer that we have of the AA's importance and value for Members. This year has seen another year of record growth, with new personal Membership joins in excess of 136,000. We now have 1.67M Members, which equates to around 54% of fully licensed drivers in New Zealand.

We believe the AA's relevance to New Zealanders will only grow, as we continue to look for new initiatives for Member value. There are a number of initiatives already underway and more planned. One of the newest initiatives was AA Home. The service, AA Home Response, replicates Roadside Assistance for the home and connects customers with AA Home tradespeople 24/7, 365 days a year. Launched in the Auckland region in February, AA Home Response aims to get a tradesperson to a household emergency within 60 minutes. Membership now stands at more than 28,000 subscribers.

The diversification of our service offerings is all part of the continued evolution of the AA from a motoring-centred organisation to a Member-centred organisation. While the Association's roots are in motoring and it's a big part of what we do and who we are, ultimately the Association is about quality and putting Members first.

We believe the financial success, diversity of offers and growing Membership aptly demonstrates that while we may be in our 115th year, it is clear that AA Members find more relevance and value now than at any other time in the Association's history.

AA President Roger Bull.

OUR PERFORMANCE

AA Membership

It was another year of record growth for AA Membership, swelling to 1.67M, some 54% of fully licensed drivers.

This was driven by a record 136,287 new Personal Membership joins. That intake is up by almost 5,000 new joins on the previous year, and brought the total Personal Membership to 1,038,296 at year end. This success was also assisted by excellent retention levels, noting that almost 90% of Members renewed their Personal Membership during the year.

AA Business Membership also enjoyed continued strong growth, adding 37,312 vehicle-based Memberships to bring the total business affiliation to 636,245 Members.

Driving this growth is the continued strengthening of the Membership offering, with an ever increasing range of Member Benefits, discounts, and services, and no increase in the annual Membership subscription fee now for 27 years.

The new service AA Home Response replicates Roadside Assistance for the home and connects customers with AA Home tradespeople 24/7, 365 days a year. Launched in the Auckland region in February, it is being rolled out to the rest of the country over the next 12 months. It has already received great feedback from those who have used the service, with the marketing campaign securing the Supreme Award at the 2018 TVNZ-NZ Marketing Awards.

The new Membership Benefits introduced over recent years continued to be very popular. Almost 133,000 Members used a free Specsavers eye exam, up 3.5% on the previous year. Members also took advantage of discounts on insurance, free driving lessons for learner and senior drivers through AA Ignition and AA Senior Driver, discounted online movie tickets at EVENT Cinemas, and discounted car rental from Thrifty and Go Rentals, among many other Benefits.

The combined value of all Member Benefits was an average annual saving for Members of $67.74, excluding any value from AA Roadservice callouts and the use of free maps and guides. This compares favourably as the average saving is $15.20 more than the average cost of the annual Membership renewal.

AA Roadservice

When AA Members reflect on why they belong to the AA, for many the core traditional service of AA Roadservice is still an essential factor, and has always been the backbone of the excellent reputation the Association has. A growing number of Members has, however, not led to an equivalent increase in the number of Roadservice callouts, due to the increased reliability of the modern car fleet. This has enabled us to focus on enhancing service quality and response times. Simply put, the quicker Members are reached on the roadside, the more satisfied they will be.

Increased congestion, particularly in busy metropolitan areas, put this focus to the test, but response times were successfully enhanced by triaging the appropriate support needed for the nature of the job with the resources the AA has at its disposal. This included the AA Roadservice fleet, Contractor garages, AA Battery Service vans, and towing assistance, as well as having appropriate levels of resources available at breakdown hotspots around the country. These initiatives have enabled the AA to better meet peak demand periods and improve service levels.

Pleasingly, the Member Service Monitor measures continued to remain well above target levels. A new customer service rating metric, Net Promoter Score, was adopted in April where scores above 70 are considered "world class". In April, AA Roadservice achieved 80, rising to 81 in May and June.

AA Roadservice Officers, AA Assist, AA Battery Service, and AA Contractors attended approximately 502,000 jobs over the year – 1% more than the previous year. These were made up of:

- 38% flat batteries
- 12.8% mechanical and electrical faults
- 19% towing services
- 8% lockouts
- 9% tyre changes
- 5% fuel

AA Roadservice attended 85% of Member calls within 60 minutes and was able to mobilise 91.6% of all breakdowns.

AA Battery Service

AA Battery Service, a joint venture between the AA and Club Assist, offers New Zealand motorists quality battery solutions for their vehicles. More than 40% of all breakdowns attended by the AA are battery related, with AA Battery Service covering 30% of all AA roadside assistance breakdown jobs.

Batteries more than 5 years old can fail at any time, so with the average vehicle age in New Zealand in excess of 14 years; the mobile battery replacement capability provides Members with a much needed solution.

It was another successful year for AA Battery Service, however not without its challenges. The rising cost of goods through weakening exchange rates and the increasing cost of lead forced a 1.9% price increase across the AA Battery Service range in July. This problem was shared by other battery suppliers, and didn't hamper sales. In fact, AA Battery Service enjoyed significant growth across both retail and wholesale channels, specifically with an increase in AGM and EFB battery sales.

Looking ahead, further increases to cost of goods are anticipated. As vehicle technology progresses at a rapid rate, an increasing number of vehicles requiring their replacement batteries to be registered to their on-board computer is also expected. The AA Battery Service battery registration service is valued at $120, however it is offered to Members and motorists at no charge.

AA Battery Service is expected to enjoy continued growth in the coming year, with a number of promising projects launching in the next 12 months.

AA Motoring Services

The vision for AA Motoring Services is to provide a one-stop shop for all motorists when it comes to their vehicle servicing and repair needs. This vision is being realised through the growing national network of AA Auto Centres.

A site in Pukekohe was opened during the year, and several others are in the planning stage. In addition, all remaining former AA Auto Service & Repair outlets were converted to AA Auto Centres, marking the successful completion of this project.

The changed Warrant of Fitness (WOF) intervals continued to see a decline in the number of vehicles presenting at testing stations. As many vehicles now require only one inspection every year, Members elected to combine their WOF inspection with their vehicle service.

Volumes of used car arrivals remained high, keeping the AA's Entry Certification services busy.

While many of the motoring services are of a commercial nature, the AA remains active in providing free advice for Members, with a team of Motoring experts on hand via an 0800 helpline to provide general advice on areas as diverse as mechanical bills, car care and specific car makes and models. An interactive digital resource with an Ask an Expert website forum is also available for Members 24 hours a day, 7 days a week. The Motoring Advice team's profile grew through regular media appearances across a broad range of topics, and weekly advice articles published in a leading motoring magazine and on an AA blog.

Motoring Services also continued to provide sound consumer advice on vehicle safety through ongoing support of the Australasian New Car Assessment Programme (ANCAP) and the Used Car Safety Ratings (UCSR) study.

AA Smartfuel

It was a strong year for AA Smartfuel, with more than $63 million in discounts earned by AA Members. This is an increase of $10 million in discounts earned compared to the previous year.

Highlights for the year included Contact Energy joining the AA Smartfuel programme and providing significant fuel discounts of 30 cents per litre every month for Contact Energy customers who have one of its Fuel Rewards plans.

The continued growth of the Countdown partnership resulted in more cardholders adding to their accumulated fuel discounts by shopping at Countdown. This helped to drive home the message of accumulating your savings to get greater value from the AA Smartfuel programme.

AA Smartfuel partners, BP and Caltex, offered strong fuel discounts nearly every week of up to 10 cents per litre. This resulted in a record year in the value of fuel discounts issued by the programme, taking the total value of discounts earned by all cardholders to more than $124 million.

There are now more than 1,300 retail locations across the country where customers can earn AA Smartfuel discounts. This number is continually growing, making AA Smartfuel one of the largest loyalty programmes in the market. This allows increasingly meaningful fuel discounts to be delivered to AA Smartfuel participants.

The team at AA Smartfuel also continued to future proof with technology developments. The AA Smartfuel phone app was a key business focus with a total number of downloads at 30 June 2018 of more than 584,000. This was an important driver of participant engagement, and made up a key part of its focus on future technology changes. It also ensured the programme is ready to adapt and give cardholders options like 'cardless' transactions in the near future.

AA Traveller

Without doubt it was a challenging year as Members' needs around tourism changed.

Traditionally, the AA has had a strong role to play in tourism advice and guidance, but with the ever increasing role of online reservation systems, it has been challenged in where it can provide relevant service. This led to changes in its publishing model over the year.

A new joint publication deal was struck with the Auckland Council-controlled organisation Auckland Tourism Events and Economic Development (ATEED), to publish and distribute a dual-branded Auckland Official Visitor Guide.

As part of this deal guides were distributed airside at Auckland's International Airport and at the Port of Auckland for incoming cruise ships, as well as at AA Centres and partner accommodation, attraction and tour operators.

The publishing business also provided approximately 1.7 million guides and maps for both Members and international visitors to make the most of their time travelling around New Zealand.

The AA will always provide a service to Members, who have a thirst for travel information and offers, but what it provides in the future to Members will continue to evolve, with further development of tourism partnerships.

AA Driving School

The AA Driving School has continued to focus on road safety, and the AA Member Benefit programmes while also widening the efficacy and reach of its commercial portfolio of driver and motorcyclist training.

It has also balanced helping learner drivers navigate the graduated driver licensing system, alongside ensuring more experienced drivers and motorcyclists are catered for in both the private and corporate realms.

The AA's Defensive Driving Course (DDC) was refreshed and updated with a re-launched course receiving NZTA approval. The course continued to have strong appeal, mainly to drivers holding a restricted licence as, upon successful completion, it allows a reduction in the time needed to move from a restricted licence to full. It was attended by over 14,000 students during the year.

The Driving School continued to grow its profile as an advocate on driver-related road safety issues, with an increasing number of requests from media. It also continued to strengthen relationships with key agencies including NZTA and ACC.

Motorcycle training is now also offered and the expansion of this offering in terms of geographical coverage and products will be a key focus in coming years.

Driver and Vehicle Licensing

During the past year, the AA completed a massive 1,343,688 New Zealand Transport Agency transactions. Of these, 926,328 were driver licence-related, and 417,360 were motor vehicle licensing transactions.

The AA's restricted and full licence bookings decreased by 15%, as a result of an increase in online transactions with the NZTA.

Overseas conversions remained very strong with 47,359 transactions completed by the AA's 26 approved sites.

At the end of the financial year, 5 regional licensing agents transferred across to NZTA, and while they have reduced the AA's country wide coverage, importantly, these regional communities have all retained their licencing agencies.

The AA's market share held up very well during the year with 76% of all learner licences, 76% of renewals, and 81% of senior drivers completing their transactions at an AA location.

The AA's work in regional communities continued, with the AA's 3 mobile processing units making 190 individual visits in the past year. The units also continued to visit prisons across New Zealand, with an increased number of transactions completed, compared to previous years.

AA Insurance

New Zealand has experienced the worst, and most expensive, natural weather events on record over the past year. The Insurance Council of NZ announced weather-related losses in 2017 were valued over $242 million, with another $93.5 million in the first quarter of 2018.

Despite facing its fair share of these events, AA Insurance's strong reinsurance arrangements with Suncorp New Zealand, proven track record of managing large scale events, and commitment to outstanding customer service, enabled it to progress claims with minimal impact on operational or financial performance, and concurrently experience record growth in insurance policy numbers.

Today the company looks after nearly 375,000 customers and more than 710,000 policies. Despite these numbers, the needs of each and every customer are paramount and continue to be the foundation of the company's growth and reputation as an award-winning insurer.

AA Insurance maintained its position for the fourth consecutive year in the Colmar Brunton Corporate Reputation Index, ranking fourth among 100 of New Zealand's most successful companies, including Air New Zealand, TVNZ, Toyota, and Z Energy.

The company's outstanding reputation was further proven with its 5-star rating for Canstar Blue Most Satisfied Customers Award for Home and Contents Insurance. Top rating NPS scores for customer claims experience helped AA Insurance to maintain its substantial lead over direct competitors for home, contents and car.

AA Insurance continues to be one of New Zealand's top motor insurers, protecting 500,000 Kiwi vehicles. A network of high-quality collision repairers ensure customer vehicles are repaired swiftly and to a high standard.

In recognition of the motor industry's shortage of skilled collision repair and refinishing staff, AA Insurance introduced the Apprentice Sponsorship scheme in 2017 to provide support in attracting and retaining new talent to the industry. A year on, the scheme is proving a great success for current apprentices, with more signing up for the next intake, and helps ensure that there are sufficient skill levels to repair customers' cars correctly and safely.

In addition, AA Insurance's partnership with vehicle repair service, Capital SMART, has secured a fourth New Zealand centre to help get customers back on the road faster. The acquisition by Capital SMART of East Auckland Body and Paint facility from Honda New Zealand, is good news for customers particularly those who own Hondas.

Over the past year, AA Insurance has added to its service by offering two new products in collaboration with its shareholders: AA Home Response, and AA Small Business Insurance.

AA Home Response replicates roadside assistance for the home and connects customers with AA Home tradespeople, 24/7, 365 days a year. AA Small Business is a suite of insurance products aimed at small businesses across 11 different industries. Many business owners are current AA Insurance customers, so it made sense to offer a full suite of relevant insurance products.

AA Insurance, a joint venture between the AA and Suncorp New Zealand, continues to deliver increasing insurance protection for policyholders and contributes positively to the Association's funding.

AA Life

AA Life which specialises in life insurance, accident recovery, and funeral plan policies now has a policy base that exceeds 89,000.

AA Life paid out on more than 98% of claims assessed during the year, and was once again named New Zealand's Most Trusted Life Insurance Brand at the Reader's Digest Most Trusted Brands Awards, a position it has now proudly held for six consecutive years.

In this financial year AA Life has worked on delivering on its value propositions, enhancing the customer experience, and further developing brand relevance in market.

AA Health

Launched in 2016, AA Health offers AA Health Everyday which covers day-to-day medical expenses, AA Health Private Hospital for diagnostics, surgery and treatments in a private hospital, and AA Health Private Hospital and Specialist which extends further to cover specialist consultations.

In that time AA Health has achieved more stature in market than typical for a new brand with AA Health's strongest brand pillars sitting in relevance and regard, which are essential in the category.

This allowed the realisation of strong results in the AA Centre Network, and a growing presence in the online and marketing space.

AA Travel Insurance

Travel Insurance, and the pitfalls of being without it, made significant headlines over the year, with a number of high-profile cases of New Zealanders struggling after taking unexpectedly and often seriously ill overseas with no ability to return home.

This led to increased interest in travel insurance products, and with an estimated 100,000 New Zealanders overseas on short term trips or holidays at any one time, AA Travel Insurance held a strong position in market.

Online sales across Domestic and International Travel Insurance were up 21% year-on-year and retail sales also increased by 14%. More than 35,000 policies were sold over the financial year.

AA Finance

The passion that Kiwis have for their cars remained strong, with car finance still the main product for AA Finance. This year saw an increase in actual lending of 16% year-on-year, with total lending of $63.2M.

The Christchurch-based 7 day a week call centre continued to provide valued support, with weekend trading requiring additional business managers to meet demand.

Motoring Advocacy

The last year has seen New Zealand's Government make some significant changes in direction for transport with increased focus on safety, the environment and on shifting more trips to public transport. The AA's advocacy work responded to these.

While accommodating this shift, the AA's advocacy continued to be underpinned by traditional strengths of surveying Members to understand their views on issues and the AA District Council network of volunteer councils throughout the country.

Stopping drivers impaired by alcohol and drugs putting lives at risk on the roads has been a cornerstone of AA Advocacy for many years and a major goal was achieved with alcohol interlocks becoming a mandatory sentence for the highest risk drink drivers from July 2018. In the lead-up to the law change, the Advocacy team pressed the Government to ensure the judiciary was well informed on the changes, and provided information to lawyers and court workers about interlocks and how effective they are at reducing reoffending. The team's 2017 Election Call set a goal of at least 5000 high-risk drink drivers receiving an interlock each year and this will be monitored closely to make sure the system is delivering results.

New public and media awareness was also sparked around drugged driving by revealing that more fatal crashes now involve someone with drugs in their system than alcohol.

Another Advocacy success was the introduction of the first 110km/h roads in New Zealand – the Tauranga Eastern Link and Waikato Expressway – and the AA worked extensively with Government agencies in developing a Speed Management Guide which provided a new blueprint for how authorities should approach speed on their roading networks as work is done to improve safety.

The decisions that are made on transport funding and projects in New Zealand are founded on the Government Policy Statement (GPS) for Land Transport. The GPS has made safety, access, environment and value for money the top priorities for the Government. The AA was a strong voice for Members through the development of the latest GPS, making submissions and meeting with the Minister, Hon Phil Twyford, to discuss the AA's positions.

Keeping the costs of motoring fair and reasonable remains a central focus of the AA's Advocacy and the introduction of a regional fuel tax (RFT) in Auckland was a significant issue from the last year. Extensive survey work, analysis and deliberation led to the AA accepting the introduction of the tax in Auckland because of its unique transport challenges. The AA, however, opposed the possibility of introducing regional fuel taxes in other areas and the Prime Minister has made a commitment that the RFT will not be used anywhere else.

Road Safety

The AA Research Foundation (AARF) enhanced knowledge of the ways to reduce crashes and harm on New Zealand roads. It completed studies into the significant group of people who die when not wearing a seatbelt, the effect of different styles of road markings on driver behaviour, using computer vision to analyse the interactions between cars and bicycles at busy urban intersections and analysis of the factors involved in fatal and serious injury crashes. AARF has established a strong reputation for being at the forefront of road safety research in New Zealand.

The AA also continued to invest in increased community road safety through AA Ignition, a programme that offers three free driving lessons for learner drivers who are Members or have a family member who is. It introduces young drivers to professional driving tuition at the start of their driving career. The AA Driving School's nationwide network of 125 NZTA approved Instructors delivered in excess of 50,000 one hour lessons to over 20,000 students during the year.

At the other end of the age spectrum, AA Senior Driver offers a free 1 hour in-car session to all Members 74 years of age and above. More than 5,000 Members enjoyed this Member Benefit during the year.

The AA is also a key partner and sponsor of Students Against Dangerous Driving (SADD), a charity aimed at empowering young Kiwis to make safer and better choices on the road, with support provided by the AA Driving School and AA Advocacy. The relationship delivers on multiple shared road safety goals for the AA Driving School and also helps introduce the AA to the young people involved with and influenced by SADD. Support from the AA and the NZTA enabled SADD to significantly upgrade its web and social media presence in the last year and grow its influence among students across New Zealand.

Financial Results

Financially the Association has had its most successful year ever, recording a net surplus of $29.2m with returns from the Association's commercial joint ventures and investment funds, at $19.7m and $11.8m respectively, being the two significant contributions to this success.

This result enabled the Association to continue to provide free Member Benefits and grants to organisations such as the NZAA Research Foundation and SADD, which this year totalled $3.9m, while at the same time not increasing the cost of Membership.

This consolidated trading result for the year also further strengthened the Association's overall financial position with net assets having increased by 13.8% to $250.4m.

The strong trading result and financial position meant the Association could continue to provide free Member benefits and provide the necessary resources toward the motoring policy and advocacy work while also continuing to invest with confidence for the future, be that on upgrading existing infrastructure or investing in new joint venture opportunities, without having to consider the need for a Membership subscription increase or to raise external funds.

THE NEW ZEALAND AUTOMOBILE ASSOCIATION INCORPORATED

ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2018

THE NEW ZEALAND AUTOMOBILE ASSOCIATION INCORPORATED
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THE NEW ZEALAND AUTOMOBILE ASSOCIATION INCORPORATED
DIRECTORY
FOR THE YEAR ENDED 30 JUNE 2018

BOARD MEMBERS		Appointed	Resigned
R K Bull	President	29/03/2008	
G T Stocker	Vice President	28/03/2009	
B H Flintoff		27/03/2010	
S J Grant		22/03/2014	
W S Masters		19/03/2011	
L J Tait		18/04/2002	
M R Winger		25/06/1993	
A G McKillop		25/03/2017	
T G Follows		24/03/2007	25/03/2017

REGISTERED OFFICE
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Auckland

INCORPORATED SOCIETY NUMBER
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AUDITORS
Deloitte Limited

BANKERS
ANZ

SOLICITORS
Holmden Horrocks

THE NEW ZEALAND AUTOMOBILE ASSOCIATION INCORPORATED
BOARD MEMBERS STATEMENT
FOR THE YEAR ENDED 30 JUNE 2018

Disclosure to the National Council and Members

The Board Members have pleasure in presenting the Annual Report for the year ended 30 June 2018.

The Board Members have approved the financial statements of The New Zealand Automobile Association Incorporated for the year ended 30 June 2018.

For and on behalf of the Board.

R K Bull, President

25 October 2018

Date

G T Stocker, Vice President

25 October 2018

Date

Approved for distribution by the National Council on 25 October 2018.

THE NEW ZEALAND AUTOMOBILE ASSOCIATION INCORPORATED
CONSOLIDATED STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE
FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 $'000	2017 $'000
Revenue	1	132,978	129,695
Share of profit or loss in joint ventures	19	19,704	14,137
Other gains / (losses)	2	11,774	11,871
Total revenue		164,456	155,703
Employee entitlements		69,846	67,502
Delivery and distribution		32,972	30,767
Plant, office and property overheads		7,882	7,990
Advertising and promotion		3,802	3,649
IT and telecommunications		8,475	7,942
Motor vehicle expenses		2,950	2,903
Goodwill impairment expense	9	-	4,821
Driver Education Programs		3,325	3,269
Other expenses		6,347	6,088
Total expenses	3	135,599	134,931
Operating surplus before tax and grants		28,857	20,772
Grant to NZAA Research Foundation		400	350
Grant to SADD Aotearoa - Students against Dangerous Driving Charitable Trust		200	100
Taxation benefit/(expense)	4	-	-
Net surplus for the year attributable to the association acting in the interests of members		28,257	20,322
Other comprehensive revenue and expense net of tax			
Gain/(loss) on revaluation of properties	16	941	652
Share of other comprehensive revenue and expense of joint ventures	19	1	(36)
Other comprehensive revenue and expense for the year net of tax		942	616
Total comprehensive revenue and expense for the year attributable to the association acting in the interests of members, net of tax		29,199	20,938

The accompanying notes form an integral part of these financial statements and should be read in conjunction with them.

THE NEW ZEALAND AUTOMOBILE ASSOCIATION INCORPORATED
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS/EQUITY
FOR THE YEAR ENDED 30 JUNE 2018

	Note	Asset revaluation reserve $'000	Accumulated comprehensive revenue and expense $'000	Total $'000
Balance at 30 June 2016		10,148	164,808	174,956
Net surplus for the year attributable to the association acting in the interests of members		-	20,322	20,322
Other comprehensive revenue and expense				
Gain/(loss) on revaluation of properties	16	652	-	652
Share of other comprehensive revenue and expense of joint ventures	17	-	(36)	(36)
Total other comprehensive revenue and expense		652	(36)	616
Total comprehensive revenue and expense, net of tax		652	20,286	20,938
Balance at 30 June 2017	16 & 17	10,800	185,094	195,894
Net surplus for the year attributable to the association acting in the interests of members		-	28,257	28,257
Other comprehensive revenue and expense				
Gain/(loss) on revaluation of properties	16	941	-	941
Share of other comprehensive revenue and expense of joint ventures	17	-	1	1
Total other comprehensive revenue and expense		941	1	942
Total comprehensive revenue and expense, net of tax		941	28,258	29,199
Balance at 30 June 2018	16 & 17	11,741	213,352	225,093

The accompanying notes form an integral part of these financial statements and should be read in conjunction with them.

THE NEW ZEALAND AUTOMOBILE ASSOCIATION INCORPORATED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	Note	2018 $'000	2017 $'000
Current assets			
Cash and cash equivalents	22	34,607	34,412
Other financial assets	5	146,632	119,457
Taxation receivable		5	5
Sundry receivables & prepaid expenses	6	9,011	9,276
Dividend receivable	19	169	187
Inventories	7	1,259	1,065
Total current assets		191,683	164,402
Non-current assets			
Property, plant and equipment	8	34,892	35,085
Investment properties	11	200	195
Investments accounted for using the equity method	19	43,370	40,142
Capitalised lease		31	50
Goodwill	9	3,118	3,118
Other intangible assets	10	3,283	2,566
Total non-current assets		84,894	81,156
Total assets		276,577	245,558
Current liabilities			
Payables	12	12,573	12,430
Employee entitlements		5,187	5,223
Unearned revenue	15	991	1,241
Deferred income	14	4,296	3,828
Total current liabilities		23,047	22,722
Non-current liabilities			
Make good provision	13	120	119
Deferred income	14	2,984	2,652
Total non-current liabilities		3,104	2,771
Total liabilities before subscriptions in advance		26,151	25,493
		250,426	220,065
Association funds			
Accumulated comprehensive revenue and expense	17	213,352	185,094
Asset revaluation reserve	16	11,741	10,800
Total association funds		225,093	195,894
Subscriptions in advance		25,333	24,171
Total association funds and subscriptions in advance		250,426	220,065

For and on behalf of the Board:

R K Bull, President

25 October 2018

Date

G T Stocker, Vice President

25 October 2018

Date

The accompanying notes form an integral part of these financial statements and should be read in conjunction with them.

	Note	2018 $'000	2017 $'000
Cash flows from operating activities			
Receipts from members and customers		133,643	128,709
Interest received		878	1,184
Dividends received		5	5
Payments to suppliers and employees		(130,938)	(125,026)
Grant to the NZAA Research Foundation		(400)	(350)
Grant to Students Against Dangerous Driving Trust		(200)	(100)
Net cash flows from/(used in) operating activities	23	2,988	4,422
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		842	605
Dividends received from joint ventures		16,741	21,780
Other taxes received		4	-
Payments for property, plant and equipment		(3,019)	(3,840)
Payment for intangible assets		(2,111)	(1,736)
Payments for purchase of equity accounted investments		(250)	-
(Increase)/decrease in other financial assets		(15,000)	(30,000)
Net cash flows (used in)/from investing activities		(2,793)	(13,191)
Cash flows from financing activities			
Net cash flows from/(used in) financing activities		-	-
Net increase / (decrease) in cash and cash equivalents		195	(8,769)
Cash and cash equivalents at the beginning of year		34,412	43,181
Cash and cash equivalents at the end of year	22	34,607	34,412

The accompanying notes form an integral part of these financial statements and should be read in conjunction with them.

Summary of significant accounting policies

Reporting entity

The New Zealand Automobile Association Incorporated (the 'Association') is an Incorporated Society registered under the Incorporated Societies Act 1908, and domiciled in New Zealand, and is a public benefit entity for the purposes of financial reporting in accordance with the Financial Reporting Act (2013).

The Association business is in providing motoring and auxiliary services to its members and the public within New Zealand.

The financial statements of the Association and its subsidiaries (the "Group") are for the year ended 30 June 2018. The financial statements were issued by the Board, and approved for distribution by the National Council, on the 25 of October 2018.

Statement of compliance

The statutory base for the Association is the Incorporated Societies Act 1908. The statutory base for the Association's subsidiaries is the Companies Act 1993 and the Financial Reporting Act 2013.

The financial statements have been prepared in accordance with New Zealand generally accepted accounting practice ("NZ GAAP"). They comply with Public Benefit Entity International Public Sector Accounting Standards ("PBE IPSAS") and other applicable Financial Reporting Standards as appropriate for Tier 1 not-for-profit public benefit entities.

Measurement base

The financial statements have been prepared on the historical cost basis except for investment properties, land and buildings classified as property, plant and equipment and managed fund investments, which have been measured at fair value.

Functional and presentation currency

The financial statements are presented in New Zealand Dollars (NZD) and all values are rounded to the nearest thousand dollars ($000) unless otherwise stated. The functional currency is New Zealand Dollars (NZD).

Significant accounting policies

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

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2018 and in the comparative information presented in these financial statements.

Summary of significant accounting policies (continued)

Significant accounting policies

a) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Association and entities controlled by the Association (its subsidiaries). Control is achieved where the Association has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the statement of comprehensive revenue and expense from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Entities controlled by the same party before and after a business combination are considered to be entities under common control, as the business combination does not result in a transfer of control. A business combination involving entities under common control involves assets and liabilities being transferred at carrying amounts with any difference resulting in an adjustment to equity.

All subsidiaries are accounted for under the group policies.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Refer to note 18 for a full listing of subsidiaries at balance date.

Only the group results have been presented as under the Incorporated Societies Act 1908 parent results are not required.

b) Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The group has no investment in associates.

c) Interest in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, that is when the strategic financial and strategic operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The results and assets and liabilities of joint ventures are incorporated in the Group financial statements using the equity method of accounting. Under the equity method, investments in joint ventures are carried in the statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the joint venture, less any impairment in the value of individual investments. Losses of a joint venture in excess of the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

Statement of accounting policies (continued)

c) Interest in joint ventures continued

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the joint venture recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in surplus or deficit (refer to (d)).

Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture. However, where the Group provides loans to its jointly controlled entities interest earnt is recognised within the group and it is not eliminated on consolidation. Also, where the Group charges its jointly controlled entities for service fees, for example brand fees, the service fee revenue is recognised within the group and it is not eliminated on consolidation. There were no loans outstanding to joint ventures at the end of the financial year.

The financial statements of the joint venture are prepared for the same reporting periods as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Refer to note 19 for a full listing of joint ventures at balance date.

d) Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. The recoverable amount is the higher of fair value less cost to sell and value in use. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the surplus or deficit on disposal.

The Group's policy for goodwill arising on the acquisition of a joint venture is described at c) above.

Statement of accounting policies (continued)

e) Revenue from exchange transactions

Rendering of services

Revenue from the rendering of services is measured at the fair value of the consideration received or receivable, net of returns and allowances, discounts and volume rebates. Depending on contractual arrangements, revenue is recognised either when services are rendered, or when the period of cover is complete.

Subscription income

Members' subscriptions are paid annually in advance throughout the year and are allocated to revenue on a daily pro rata time basis. The proportion of subscriptions received, which relate to the period after balance date, are included in the financial statements as subscriptions in advance.

Unearned Income

Advertising revenue is earned through two sources, web and publications.

Advertising revenue for publications is deferred and classified as unearned revenue on the statement of financial position until completion of delivery to the users of the publications at which point it is recognised in surplus or deficit.

The cost of publications in development at balance date is recognised as an asset where the costs directly attributable to the development of the publication can be measured reliably. The development costs mainly comprise the direct costs of certain personnel dedicated to developing adverts and creating the content for the publications, artwork and other publication production and development costs, including appropriate and directly attributable overheads. The asset is amortised to surplus or deficit on completion of delivery of the relevant publication when the related revenue is recognised. The asset is set off against the related unearned income in the statement of financial position until recognition in surplus or deficit.

Deferred income

Deferred income from corporate membership is recognised in surplus or deficit over the period to which the service relates which may be longer than a year. It is classified as liabilities on the statement of financial position and allocated between current and non-current.

Rental income

Rental income is recognised on a straight line basis over the period of the lease.

Dividend and interest revenue

Dividend revenue from investments is recognised when the right to receive payment has been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

f) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and call and term deposits < 3 months, net of outstanding bank overdrafts.

Statement of accounting policies (continued)

g) Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through surplus or deficit' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Trade receivables, loans, and other receivables are recorded at amortised cost using the effective interest method less impairment.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount of the financial asset.

Financial assets at fair value through surplus and deficit (FVTSD)

Financial assets are classified as at FVTSD where the financial asset is designated as at FVTSD.

A financial asset is classified as held for trading if:
- it has been acquired principally for the purpose of selling in the near future; or
- it is part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTSD are stated at fair value, with any resultant gain or loss recognised in surplus or deficit. The net gain or loss recognised in surplus or deficit incorporates any dividend or interest earned on the financial asset.

Impairment of financial assets

Financial assets other than those at fair value through surplus or deficit are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in surplus or deficit.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through surplus or deficit to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Statement of accounting policies (continued)

h) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

i) Property, plant and equipment

Carrying amount

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed by independent registered valuers and with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the statement of financial position date.

Refer to the accounting policy critical accounting judgments and key sources of estimation uncertainty policy for methods and significant assumptions used in the valuations.

Any revaluation increase arising on the revaluation of such land and buildings is credited in equity to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in surplus or deficit, in which case the increase is credited to surplus or deficit to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such land and buildings is charged to surplus or deficit to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to surplus or deficit. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the asset revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognised.

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the item.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive revenue and expense.

Depreciation

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land.

Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period.

Statement of accounting policies (continued)

i) Property, plant and equipment (continued)

The following estimated useful lives are used in the calculation of depreciation.

• Buildings - Retail/Administration	50 years
• Buildings - Technical	25 years
• Leasehold Improvements	10 years
• Plant & Equipment	10 years
• Motor vehicles	6 years
• Furniture and Fittings	5 years
• Computer Equipment	3-5 years

The residual value of assets is reassessed annually.

j) Investment Property

Investment property is property held to earn rental income. Investment property is measured initially at its cost including transaction costs. Subsequent to initial recognition, investment property is measured at fair value with any change therein recognised in surplus or deficit.

Investment property revaluations are performed annually. The values are based on market values being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

In the absence of current prices in an active market, the valuations are prepared using a discounted cashflow methodology based on the estimated rental cash flows expected to be received from the property adjusted by a discount rate that appropriately reflects the risks inherent in the expected cash flows. Refer to the accounting policy critical accounting judgments and key sources of estimation uncertainty policy for methods and significant assumptions used in the valuations.

Investment properties are derecognised when they have been disposed of and any gains or losses incurred on disposal are recognised in the statement of comprehensive revenue and expense in the year of derecognition.

k) Intangible assets

Computer software acquired, which is not an integral part of a related hardware item, is recognised as an intangible asset. The costs incurred internally in developing computer software are also recognised as intangible assets where the Group has a legal right to use the software and the ability to obtain future economic benefits from that software. Acquired software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These assets have a finite life and are amortised on a straight line basis over their estimated useful life of 3 or 5 years. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

Statement of accounting policies (continued)

l) Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease liability.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset or the lease term, whichever is shorter.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

m) Trade payables and other accounts payable from exchange transactions

Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services. Trade payables and other accounts payable are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest rate method.

A provision for make good is recognised when there is a present obligation as a result of a property lease, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably.

n) Taxation

The Group is liable for taxation on its commercial trading activities, interest and rental income under section CB33 of the Income Tax Act 2007. The Group is exempt from taxation on membership related activities.

Income tax expense

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

Current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive revenue and expense because it excludes items of income or expense that are deductible in other years and it further excludes items that are never taxable or deductible. The Group's provision for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Statement of accounting policies (continued)

n) Taxation (continued)

Deferred tax

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition (other than as a result of a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the statement of financial position date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in surplus or deficit, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

Imputation credits

No disclosure is made in respect of imputation credits, since these are not utilisable by parties external to the Group.

Statement of accounting policies (continued)

o) Goods and services tax

"Revenues, expenses, assets and liabilities are recognised net of the amount of goods and services tax (GST), except:

(i) where the amount of GST incurred is not recovered from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
(ii) for receivables and payables which are recognised inclusive of GST.

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

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

p) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

Defined contribution plans

Contributions to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

q) Statement of cash flows

For the purpose of the cash flow statement, cash and cash equivalents include cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. The following terms are used in the statement of cash flows:

Operating activities are the principal revenue producing activities of the Group and other activities that are not investing or financing activities.

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities are activities that result in changes in the size and composition of members' funds and borrowings of the entity.

r) Foreign currencies

Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the statement of comprehensive revenue and expense in the period in which they arise.

THE NEW ZEALAND AUTOMOBILE ASSOCIATION INCORPORATED
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Statement of accounting policies (continued)

s) Impairment

At each statement of financial position date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in surplus or deficit immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying value does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in surplus or deficit, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described above, the Board Members are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

There were no critical judgments made in applying the accounting policies above.

Statement of accounting policies (continued)

Critical accounting judgments and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty

Fair value of land and buildings and investment property

The fair value of land & buildings and investment properties is determined at balance date using market values determined by independent registered valuers. In the absence of current prices in an active market, the valuations are prepared using a discounted cashflow methodology based on the estimated rental cash flows expected to be received from the property adjusted by a discount rate (ranging from 5.75% to 9.30% (2017: 6.08% to 9.75%)) that appropriately reflects the risks inherent in the expected cash flows. The most significant property is Albert Street and the effective market yield ranges from 6.54% to 6.78% as at 30 June 2018 (2017: 6.58% to 6.78%). Valuations are completed in accordance with the New Zealand Institute of Valuers (NZIV) and Property Institute of New Zealand (PINZ) Code of Ethics, and Valuation Standards, including API and NZPI Professional Practice Fifth Edition, New Zealand Valuation Guidance Note 1 and International Valuation Application 1. Refer to note 8 and 11 for valuations.

Joint Ventures

Although the Group holds less or more than 50% ownership interest in some of their investments (refer note 19), these are classified as joint ventures as there is a contractual arrangement and the Group holds 50% of the voting rights and hence has joint control in all cases. The carrying value of investments in joint ventures is reviewed at balance date to determine whether or not any losses over and above the carrying amount of the investment should be recognised. If the Group determines there is a constructive obligation to the joint venture then the Group will continue to recognise their share of the losses.

Impairment of Goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Board members to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value, refer note 9.

Accounting Standards and interpretations issued but not yet effective

There are no new, revised, or amended standards that are applicable to the Association which are in issue but are not yet required to be adopted, for the year ended 30 June 2018.

THE NEW ZEALAND AUTOMOBILE ASSOCIATION INCORPORATED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

1. Revenue

	2018 $'000	2017 $'000
Revenue from exchange transactions:		
Membership fees and subscriptions	57,005	54,802
Sale of goods	5,923	5,162
Rendering of services to members and public	69,143	68,660
Dividends	5	5
Interest revenue (loans and receivables)	902	1,066
	132,978	129,695

2. Other gains / (losses)

	2018 $'000	2017 $'000
Revaluation of investment properties	5	5
Change in fair value of financial assets classified as fair value through surplus or deficit	12,476	10,701
Impairment reversal / (losses) on revalued land and buildings	(707)	1,165
	11,774	11,871

3. Expenses

		2018 $'000	2017 $'000
	Net surplus for the year has been arrived at after charging/(crediting):		
(a)	***General expenses***		
	Depreciation of property, plant and equipment (note 8)	3,053	3,033
	Amortisation - Software (note 10)	1,393	935
	Impairment - Goodwill (note 9)	-	4,821
	Operating lease expense	3,047	3,476
	Raw materials and consumables used	3,606	3,343
	(Gain)/loss on disposal of property, plant and equipment	(449)	(363)
	(Gain)/loss on disposal of intangible assets	1	2
	Legal expenses	312	154
(b)	***Personnel expenses***		
	Employee benefits expense	63,068	61,618
	Defined contribution plans	3,162	3,202

4. Taxation

4a. Income tax expense

	2018 $'000	2017 $'000
Current tax (expense)/benefit	-	-
Deferred tax	-	-
Income tax (expense)/benefit for the year	-	-
Income tax (expense)/benefit for the year can be reconciled to the accounting profit as follows:		
Operating surplus/(loss) from continuing activities before tax and grants	28,857	20,772
Less grants to NZAA Research Foundation	(400)	(350)
Less grant to Students against Dangerous Driving Trust	(200)	(100)
	28,257	20,322
Income tax using company tax rate 28%	7,912	5,690
Effect of exempt (surplus)/deficit	(7,279)	(5,843)
Effect of permanent differences	5,785	8,725
Effect of temporary differences	109	95
Effect of prior period adjustments	(666)	34
Effect of unused tax losses not recognised as deferred tax assets	331	(534)
Effect of imputation credits recognised	(6,192)	(8,167)
	-	-

4b. Deferred tax assets/ (liabilities)

Deferred tax assets and liabilities are offset on the face of the Statement of Financial Position where they relate to entities within the same taxation authority.

The following is the analysis of temporary differences relating to deferred tax balances (after offset) for statement of financial position purposes:

	1-Jul-17 $'000	Charge to profit or loss $'000	Charge to equity $'000	30-Jun-18 $'000
Gross deferred tax liabilities				
Property, plant and equipment	(3,150)	162	-	(2,988)
Investment Property	(53)	(1)	-	(54)
Tax liabilities	(3,203)	161	-	(3,042)
Set off of tax losses	3,203	(161)	-	3,042
Net tax liabilities	-	-	-	-
Gross deferred tax assets				
Employee provisions	693	175	-	868
Doubtful debts provision	19	(3)	-	16
Inventory provisions	6	(5)	-	1
Other	84	3	-	87
Brought forward tax losses recognised	2,401	(331)	-	2,070
Tax assets	3,203	(161)	-	3,042
Set off of tax losses	(3,203)	161	-	(3,042)
Net tax assets	-	-	-	-

4b Deferred tax assets/ (liabilities) (continued)

	1-Jul-16 $'000	Charge to profit or loss $'000	Charge to equity $'000	30-Jun-17 $'000
Gross deferred tax liabilities				
Property, plant and equipment	(2,890)	(260)	-	(3,150)
Investment Property	(52)	(1)	-	(53)
Tax liabilities	(2,942)	(261)	-	(3,203)
Set off of tax losses	2,942	261	-	3,203
Net tax liabilities	-	-	-	-
Gross deferred tax assets				
Employee provisions	944	(251)	-	693
Doubtful debts provision	35	(16)	-	19
Inventory provisions	8	(2)	-	6
Other	88	(4)	-	84
Brought forward tax losses recognised	1,867	534	-	2,401
Tax assets	2,942	261	-	3,203
Set off of tax losses	(2,942)	(261)	-	(3,203)
Net tax assets	-	-	-	-

The Association has unrecognised New Zealand tax losses of approximately $22.20 million (2017: $21.93 million). Refer statement of accounting policies Taxation note (n). Losses continue to be subject to the approval of the Inland Revenue Department.

5. Other financial assets

	2018 $'000	2017 $'000
Investment managed funds	146,632	119,457
	146,632	119,457

Investment managed fund represents the Group's investment in three diversified portfolios managed by JMI Wealth Limited, Nikko Asset Management New Zealand Limited and ANZ Investments New Zealand Limited. The portfolios consist of equities, trust units and fixed interest investments.

6. Sundry receivables, prepaid expenses and other current assets

	2018 $'000	2017 $'000
Sundry receivables - from exchange transactions	5,949	6,705
Allowance for doubtful debts	(56)	(68)
Prepayments	1,684	1,626
Other	1,434	1,013
	9,011	9,276

The average credit period on sales of goods and service is 60 days (2017: 60 days). Interest is charged only when the customers go beyond their agreed credit period. The Group provides for doubtful debts on a customer by customer basis. Payment terms are determined by contractual arrangements.

The receivables balance is made up of a large number of low-value receivables; there are no customers who represent more than 5% (2017: 4%) of the total balance of trade receivables. Before accepting a new customer the Group assesses the potential customer's credit quality and defines credit limits by customer.

Included in the Group's sundry receivables balance are receivables with a carrying amount of $1,480,682 (2017: $1,487,858) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

6. Sundry receivables, prepaid expenses and other current assets (continued)

Ageing past due sundry receivables that are not impaired	2018 $'000	2017 $'000
30-60 days	981	880
60-90 days	355	293
90+ days	145	315
	1,481	1,488

Movement in the allowance for doubtful debts	2018 $'000	2017 $'000
Balance at beginning of the period	68	125
Impairment losses recognised on receivables	43	14
Amounts written off as uncollectable	(43)	(54)
Amounts recovered during the year	-	(17)
Impairment losses reversed	(12)	-
Balance at end of period	56	68

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The Board members believe that there is no further credit provision required in excess of the allowance for doubtful debts.

The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected proceeds. The Group does not hold collateral over these balances. The net carrying amount is considered to approximate their fair value.

The doubtful debt provision of $55,920 (2017: $67,708) is applicable to invoices aged 30+ days (2017: 30+ days).

7. Inventory

	2018 $	2017 $
Retail stock	832	638
Consumables	427	427
	1,259	1,065

The cost of inventories recognised as an expense during the period was $3,605,972 (2017: $3,342,844). The cost of inventories recognised as an expense includes $2,245 (2017: $17,669) in respect of write-downs of inventory to net realisable value, and has been reduced by $15,424 (2017: $3,703) in respect of the reversal of such write-downs. Previous write-downs have been reversed as a result of the destruction of certain out of date products.

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8. Property, plant and equipment

	Freehold Land	Buildings	Leasehold Improvements	Plant and Equipment	Furniture & Fittings	Motor Vehicles	Computer Equipment	Work in Progress	Total
	at fair value	at fair value	at cost	at cost	at cost	at cost	at cost	at cost	
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Gross carrying amount									
Balance at 1-July-16	10,266	13,169	6,385	2,955	10,361	9,835	4,308	289	57,568
Net additions / (transfers)	-	193	200	240	354	1,961	360	532	3,840
Disposals	-	-	(22)	(131)	(902)	(2,147)	(981)	-	(4,183)
Revaluation increase / (decrease)	1,355	152	-	-	-	-	-	-	1,507
Balance at 30-June-17	11,621	13,514	6,563	3,064	9,813	9,649	3,687	821	58,732
Net additions / (transfers)	-	617	103	118	533	1,913	348	(613)	3,019
Disposals	-	-	(83)	(221)	(566)	(2,332)	(787)	-	(3,989)
Revaluation increase / (decrease)	645	(727)	-	-	-	-	-	-	(82)
Balance at 30-June-18	12,266	13,404	6,583	2,961	9,780	9,230	3,248	208	57,680
Accumulated depreciation									
Balance at 1-July-16	-	-	5,131	2,259	8,881	4,801	3,795	-	24,867
Depreciation expense	-	311	285	127	511	1,543	256	-	3,033
Eliminated on disposals	-	-	(22)	(131)	(904)	(1,909)	(976)	-	(3,942)
Eliminated on revaluation	-	(311)	-	-	-	-	-	-	(311)
Balance at 30-June-17	-	-	5,394	2,255	8,488	4,435	3,075	-	23,647
Depreciation expense	-	317	220	137	533	1,543	303	-	3,053
Eliminated on disposals	-	-	(77)	(220)	(569)	(1,948)	(782)	-	(3,596)
Eliminated on revaluation	-	(317)	-	-	-	-	-	-	(317)
Balance at 30-June-18	-	-	5,537	2,173	8,452	4,030	2,596	-	22,787
Carrying amount									
As at 30-June-17	11,621	13,514	1,169	809	1,325	5,214	612	821	35,085
As at 30-June-18	12,266	13,404	1,046	789	1,328	5,200	652	208	34,892

8. Property, plant and equipment (continued)

Valuation of land & buildings

Land & buildings were last revalued by independent registered valuers at 30 June 2018. The total value as per valuer was as follows:

	Date of Inspection	30 June 2018 $'000	30 June 2017 $'000
Colliers International	27/06/2018	14,225	14,425
Morgan Property Advisors	30/06/2018	360	360
Telfer, Young	18/07/2018	3,150	2,950
Chadderton & Associates Ltd	2/07/2018	775	765
SW Binnie	3/07/2018	795	775
Telfer, Young	5/07/2018	375	320
Duke & Cooke	20/07/2018	1,625	1,465
Alexander Hayward Limited	12/07/2018	2,100	2,000
Telfer, Young	18/07/2018	440	400
Telfer, Young	18/07/2018	1,825	1,675
		25,670	25,135

Had the Group's land and buildings been measured on a historical cost basis, their carrying amount would have been as follows:

	2018 $'000	2017 $'000
Freehold land	1,464	1,464
Buildings	7,439	7,519
	8,903	8,983

9. Goodwill

	2018 $'000	2017 $'000
Cost		
Balance at 1 July	10,911	10,911
Balance at 30 June	10,911	10,911
Accumulated impairment losses		
Balance at 1 July	(7,793)	(2,972)
Impairment losses charged to surplus or deficit	-	(4,821)
Balance at 30 June	(7,793)	(7,793)
Carrying amount		
As at 1 July	3,118	7,939
As at 30 June	3,118	3,118

9. Goodwill (continued)

Allocation of goodwill to cash-generating units ("CGU's")

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGU's) that are expected to benefit from that business combination. After recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:

	2018 $'000	2017 $'000
New Zealand Automobile Association Inc	3,118	3,118
AA Tourism Publishing Limited	-	-
	3,118	3,118

The Group tests goodwill annually for impairment or more frequently if there are indicators that goodwill might be impaired.

For all CGU's above, the recoverable amounts of the cash-generating units are determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the directors. The period is a five year period and the discount rate used is 10% (2017: 10% per annum).

For the New Zealand Automobile Association Inc the cash flow projections during the budget period are based on the same expected gross margins during the budget period and price inflation during the budget period. The cash flows beyond that five year period have been extrapolated using a 2% per annum growth rate which is less than the projected long-term average growth rate. The Board members believe that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

During the prior financial year the Group assessed the recoverable amount of AA Tourism Publishing Limited goodwill, and determined that goodwill was fully impaired. The Board members determined it necessary to impair the goodwill allocated to this CGU due to the change in the operating model adopted by AA Tourism Publishing Limited, brought about to meet the demands of the changing marketplace and consequential reduction in revenue and cashflow.

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10. Other intangible assets

	Computer Software $'000
Gross carrying amount	
Balance at 30-June-16	12,603
Additions	1,736
Disposals	(201)
Balance at 30-June-17	14,138
Additions	2,111
Disposals	(138)
Balance at 30-June-18	16,111
Accumulated amortisation and impairment	
Balance at 30-June-16	10,838
Amortisation expense	935
Eliminated on disposals	(201)
Balance at 30-June-17	11,572
Amortisation expense	1,393
Eliminated on disposals	(137)
Balance at 30-June-18	12,828
Carrying amount	
As at 30-June-17	2,566
As at 30-June-18	3,283

11. Investment properties

At fair value	2018 $'000	2017 $'000
Balance at start of period	195	190
Change in fair value	5	5
Balance at the end of the period	200	195

The Association holds the freehold to all investment properties.

Valuation of investment properties

All investment properties were valued by independent registered valuers as at 30 June 2018. The total value per valuer was as follows:

	Date of Valuation	2018 $'000	2017 $'000
Telfer Young	30/06/2018	200	195
		200	195

12. Accounts payable

	2018 $'000	2017 $'000
Trade payables - from exchange transactions	4,958	4,894
Accrued expenses	3,832	3,258
Goods and services tax (GST) payable	579	600
Other	3,204	3,678
	12,573	12,430

The average credit period on purchases is up to one month. No interest is charged on trade payables as the Group always pays by due date. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

13. Make good provision

The make good provision relates to make good requirements under property leases.

	2018 $'000	2017 $'000
Balance at beginning of period	119	130
Movement for period	1	(11)
Balance at end of period	120	119

14. Deferred income

This is deferred income relating to corporate subscriptions. Income is recognised in surplus or deficit over the period to which the service relates which may be for more than a year.

This is disclosed as:	2018 $'000	2017 $'000
Current portion	4,296	3,828
Non-current portion	2,984	2,652
	7,280	6,480

15. Unearned revenue

Unearned Revenue represents the deferral of licence fees received and the impact on the statement of financial position of deferring the advertising revenues and directly attributable development costs relating to undistributed publications.

	2018 $'000	2017 $'000
This is disclosed as:		
Current portion	991	1,241
Non-current portion	-	-
Total Unearned Revenue	991	1,241

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16. Asset revaluation reserve

	2018 $'000	2017 $'000
Balance at beginning of period	10,800	10,148
Increase on revaluation of properties	1,028	724
Decrease on revaluation of properties	(87)	(72)
Balance at end of period	11,741	10,800

The asset revaluation reserve arises on the revaluation of land and buildings. Where revalued land or buildings are sold, the portion of the asset revaluation reserve that relates to that asset, and is effectively realised, is transferred directly to accumulated funds.

17. Accumulated comprehensive revenue and expense

	2018 $'000	2017 $'000
Balance at beginning of period	185,094	164,808
Net surplus for the year ended attributable to the Association acting in the interest of members	28,257	20,322
Share of other comprehensive revenue and expense of joint ventures	1	(36)
Balance at end of period	213,352	185,094

In the event the Association is wound up, the residual assets are to be applied towards an entity having substantially similar objectives and activities.

18. Subsidiaries

Details of the Group's significant subsidiaries at 30 June 2018 are as follows:

Name of Subsidiary	Place of Incorporation	Principle activity	Ownership interest and voting rights (%) 2018	2017
The New Zealand Automobile Association Limited	New Zealand	Brand Licensing	100	100
AA Tourism Publishing Limited	New Zealand	Publishing Guides and Maps	100	100
AA Auto Service Limited	New Zealand	Vehicle Servicing Franchise	100	100
AA Driver Training Limited	New Zealand	Driver Training Franchise	100	100
NZAA Assets Limited	New Zealand	Service Provider	100	100
AA Finance Limited	New Zealand	Non Trading	100	100
AA Rewards Operations Limited	New Zealand	Non Trading	100	100
AA Tourism Limited	New Zealand	Non Trading	100	100
AA Vehicle Testing Limited	New Zealand	Non Trading	100	100
Geosmart Maps Limited	New Zealand	Non Trading	100	100

19. Investments accounted for using the equity method

Investments in joint ventures

Certain joint ventures have different year ends compared to the Group however these joint ventures are non-trading.

Name of Joint Venture	Financial year end	Place of Incorporation	Principle activity	Voting rights on significant transactions (%) 2018	2017	Ownership interest (%) 2018	2017
AA Insurance Limited	30 June	New Zealand	Insurance Provider	50%	50%	32%	32%
AA Battery Services Limited	30 June	New Zealand	Service Provider	50%	50%	60%	50%
AA Life Services Limited	30 June	New Zealand	Insurance Provider	50%	50%	50%	50%
AA Smartfuel Limited	30 June	New Zealand	Loyalty Program	50%	50%	50%	50%
AA Finance Marketing Partnership	30 June	New Zealand	Finance Marketing	50%	50%	50%	50%
AA Home Limited	30 June	New Zealand	Membership Program	50%	-	66%	-
Access New Zealand Limited	30 September	New Zealand	Non Trading	-*	50%	-*	50%

Although the Group holds less or more than 50% ownership interest in two of the investments listed above, they are classified as a joint venture as there is a contractual arrangement and the Group holds 50% of the voting rights and hence has joint control in all cases. The ownership interest in AA Battery Service Limited increased to 60% on 30 June 2018.

* Access New Zealand Limited was deregistered on 21 June 2018.

19. Investments accounted for using the equity method

Summarised financial information in respect of the Group's joint ventures is set out below:

	2018 $'000	2017 $'000
Current assets	437,640	404,967
Long term assets	48,285	66,513
Total assets	485,925	471,480
Current liabilities	142,954	142,245
Long term liabilities	236,024	231,441
Total liabilities	378,978	373,686
Net assets	106,947	97,794
Group's share of net assets of joint ventures	43,370	40,142
Total revenue	448,318	455,979
Total expenses	(393,638)	(418,012)
Total profit	54,680	37,967
Group's share of profits of joint ventures	19,704	14,137

Movement in the carrying amount of the Group's investments in joint ventures:

	2018 $'000	2017 $'000
Carrying value of joint ventures		
Carrying value at beginning of period	40,142	38,150
Increase in shares	250	-
Share of net surplus/(losses)	19,704	14,137
Share of other comprehensive revenue and expense of joint ventures	1	(36)
Dividends received	(16,554)	(11,917)
Dividends owing	(169)	(187)
Distribution of tax credit	(4)	(5)
Carrying value at end of period	43,370	40,142

19. Investments accounted for using the equity method (continued)

	2018 $'000	2017 $'000
The carrying value is comprised of:		
Cost	21,311	21,062
Share of joint venture post-acquisition reserves	15,318	12,339
Goodwill	6,741	6,741
	43,370	40,142
Joint venture share of net surplus		
Share of surplus before taxation	26,322	18,754
Share of taxation expense	(6,618)	(4,617)
Share of total recognised revenues and expenses	19,704	14,137

20. Related parties

The Association is an incorporated society acting in the interest of its members.

Equity interest in related parties

Details of interests in subsidiaries and joint ventures are disclosed in notes 18 and 19 respectively.

Related party transactions and outstanding balances

Transactions with and amounts outstanding between the Group and related parties are:

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20. Related parties (continued)

Joint Ventures (Continued)

2018

Related Party	Type of Transaction	Amount during the year ($'000)	Balance at 30 June ($'000)
Joint Ventures:			
AA Insurance Limited	Amount Owed to NZAA		302
	Amount Owed to AA Insurance Limited		3
	Service Commission and Operational Funding	6,133	
AA Life Services Ltd	Amount Owed to NZAA		281
	Service Commission and Operational Funding	1,465	
AA Battery Services Ltd	Amount Owed to NZAA		129
	Amount Owed to AA Battery Services		163
	Purchase of Battery Stock	1,620	
	Service Commission and Operational Funding	(1,702)	
AA Smartfuel Limited	Amount Owed to NZAA		96
	Amount Owed to AA Smartfuel Limited		20
	Service Provider and Operational Funding	712	
	Brand Licensing and Program Fees	(389)	

20. Related parties (continued)
Joint Ventures (Continued)

Related Party	Type of Transaction	Amount during the year ($'000)	Balance at 30 June ($'000)
AA Finance Marketing Partnership			
	Amount Owed to NZAA		140
	Service Provider and Operational Funding	534	
	Brand Licensing and Program Fees	643	
AA Home Limited			
	Amount Owed to NZAA		58
	Amount Owed to AA Home Limited		3
	Administrative Services and Operational Activities	316	
Other related parties:			
Staff Superannuation Schemes			
	Employer Contribution	3,162	
	Expenses	787	
New Zealand Automobile Association Research Foundation			
	Amount Owed to NZAA		9
	Service Provider and Operational Funding	92	
	Grant paid to NZAA Research Foundation	400	
SADD Aotearoa - Students against Dangerous Driving Charitable Trust			
	Amount Owed to NZAA		1
	Revolving Credit Facility	-	-
	Service Provider and Operational Funding	22	
	Grant paid to Students Against Dangerous Driving Aotearoa	260	

20. Related parties (continued)
Joint Ventures (Continued)

2017

Related Party	Type of Transaction	Amount during the year ($'000)	Balance at 30 June ($'000)
Joint Ventures:			
AA Insurance Limited			
	Amount Owed to NZAA		215
	Amount Owed to AA Insurance		-
	Service Commission and Operational Funding	5,746	
AA Life Services Ltd			
	Amount Owed to NZAA		227
	Service Commission and Operational Funding	1,158	
AA Battery Services Ltd			
	Amount Owed to NZAA		134
	Amount Owed to AA Battery Services		141
	Purchase of Battery Stock	1,304	
	Service Commission and Operational Funding	(1,271)	
AA Smartfuel Limited			
	Amount Owed to NZAA		166
	Amount Owed to AA Smartfuel Limited		8
	Service Provider and Operational Funding	1,230	
	Brand Licensing and Program Fees	(346)	

20. Related parties (continued)

Joint Ventures (Continued)

Related Party	Type of Transaction	Amount during the year ($'000)	Balance at 30 June ($'000)
AA Finance Marketing Partnership			
	Amount Owed to NZAA		291
	Service Provider and Operational Funding	613	
	Brand Licensing and Program Fees	651	
AA Home Limited			
	Amount Owed to NZAA		-
	Amount Owed to AA Home Limited		-
	Service Commission and Operational Funding	-	
Other related parties:			
Staff Superannuation Schemes			
	Employer Contribution	3,202	
	Expenses	14	
New Zealand Automobile Association Research Foundation			
	Amount Owed to NZAA		11
	Service Provider and Operational Funding	96	
	Grant paid to NZAA Research Foundation	350	
SADD Aotearoa - Students against Dangerous Driving Charitable Trust			
	Amount Owed to NZAA		6
	Revolving Credit Facility	-	-
	Service Provider and Operational Funding	96	
	Grant paid to Students Against Dangerous Driving Aotearoa	160	

Any amounts outstanding are unsecured and will be settled in cash. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

20. Related parties (continued)

Key management personnel remuneration

The Group classifies its key management personnel into one of two classes:

- Members of the governing body
- Chief executive officer and senior executive officers, responsible for the operation of the Group's operating segments, and reporting to the governing body.

	2018		2017	
	Remuneration $'000	Number of Individuals	Remuneration $'000	Number of Individuals
Members of the governing body	371	8 people	356	8 people
CEO and senior executive officers	7,678	15.48 FTE's	7,318	14.7 FTE's
	8,049		7,674	

Legal and other consulting fee's totalling $92,626 (2017: $119,169) were paid at market rates to a law firm associated with a member of the governing body for the provision of expert legal advice for specific matters outside of the scope of their normal duties.

Loans and advances to key management personnel amounted to $Nil (2017: $Nil).

21. Remuneration of auditors

	2018 $'000	2017 $'000
Audit of the financial statements	246	246
Taxation compliance services	40	52
Taxation advisory services	127	91
Non assurance related services	116	137
	529	526

The auditor of The New Zealand Automobile Association Incorporated and subsidiaries is Deloitte. Deloitte also provides consulting and advisory work which is captured under non assurance related services.

22. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, cash in banks and call deposits and fixed term deposits < 3 months, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the period as shown in the cash flow statement can be reconciled to the related items in the statement of financial position as follows:

	2018 $'000	2017 $'000
Cash on hand	45	45
Cash in banks	2,365	2,270
Fixed term deposits ≤ 3 months	24,299	20,276
Call deposits	7,898	11,821
Total cash and cash equivalents per statement of cash flows	34,607	34,412

23. Reconciliation of net surplus after taxation for the period to net cash

	2018 $'000	2017 $'000
Net surplus for the year attributable to the association acting in the interest of members	28,257	20,322
Adjustments for non-cash items:		
Depreciation expense	3,053	3,033
Amortisation expense	1,393	935
Impairment of goodwill recognised in surplus or deficit	-	4,821
Capitalised lease	19	(39)
Share of equity accounted joint venture (surplus)/deficit	(19,704)	(14,137)
Loss/(gain) on managed funds	(12,476)	(10,701)
Loss/(gain) of disposal of property, plant and equipment	(449)	(363)
Loss/(gain) of disposal of intangible assets	1	2
Loss/(gain) on revaluation of freehold land and buildings	707	(1,165)
Loss/(gain) on revaluation of investment property	(5)	(5)
Adjustments for movements in:		
Sundry receivables and prepayments	265	(893)
Inventories	(194)	(41)
Accounts payable	444	1,179
Employee entitlements	(36)	(11)
Make Good Provision	1	(11)
Unearned & deferred income	550	116
Subscriptions in advance	1,162	1,380
Net Operating cash inflow / (outflow)	2,988	4,422

24. Amount, timing and uncertainty of cash flows

The Groups revenue is widely sourced across a range of services, products and industries and as such the Board members consider the risk to cash flow is minimised.

The major source of revenue for the Group is membership subscription income. This risk is mitigated as there are a large number of personal members, who pay a comparatively low subscription, so to suffer a material change in membership subscription income would require a significant change in personal members.

The only significant risk to profit from membership subscription income is the cost of members' demand for road service. This risk is mitigated predominantly through the use of a fixed cost operating structure based on estimated future demand. The Group's 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.

The income derived from other activities is spread across a wide range of business ventures, some involving a discretionary spend (tourism, vehicle inspections) and others where expenditure is unavoidable (Warrants of Fitness, Registration, and Licensing). The spread of income amongst these categories minimises the risk to the overall revenue received from the source, particularly where the transactions tend to be of small value but involve large numbers of customers.

25. Operating lease and capital commitments

The group as lessee:

Operating leases primarily relate to retail space with lease terms of between one month to 20 years. All operating lease contracts contain market review clauses in the event that the Group exercises its option to renew. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

Obligations payable after balance date on non-cancellable leases are as follows:

	2018 $'000	2017 $'000
Within one year	3,313	3,047
Between one and five years	5,133	5,335
After five years	35	217
	8,481	8,599

Capital commitments

At balance date the Group had no capital commitments (2017: $Nil).

26. Contingent assets

At balance date the Group had no contingent assets (2017: $Nil).

27. Contingent liabilities

	2018 $'000	2017 $'000
Contingent liabilities are categorised as follows:		
Motorway emergency telephone service indemnity bond	8	8

28. Subsequent events

The Group received the following dividends post balance date from joint ventures; $4.8 million, net of imputation credits of $1.9 million, on the 10 August 2018 being their share of a dividend declared on 27 July 2018 and $1.5 million, net of imputation credits of $0.58 million, on the 13 September 2018, being their share of a dividend declared on 11 September 2018.

29. Financial instruments

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

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk including interest rate risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. Ageing analyses are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts. Levels of exposure to interest rate risk are monitored and assessments are made of market forecasts for interest rates.

The Board members review and agree policies for managing each of the risks identified below, including the setting of limits for interest rate risk, and future cash flow forecast projections.

Capital risk management
The Group manages its capital to ensure that the Group will be able to continue as a going concern while ensuring sufficient return in order to meet the objectives of the Group. The capital structure of the Group includes cash and cash equivalents and members' funds of the Association comprising accumulated funds and other reserves.

Credit risk
Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, sundry receivables and other current assets, and other financial assets. The Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

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

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable, with the result that the Group's exposure to bad debts is not significant.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5% of gross monetary assets at any time during the year. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group does not hold collateral over these accounts receivable.

29. Financial instruments (continued)

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Contractual maturities of financial liabilities

The table below summarises the contractual maturities of financial liabilities (including interest payments) based on the remaining period at the balance date to the contractual maturity date:

As at 30 June 2018	Carrying amounts $'000	Contractual cash flows $'000	On demand $'000	1 to 12 months $'000	1 to 5 years $'000
Liabilities					
Accounts payable	11,994	11,994	11,994	-	-
Total financial liabilities	11,994	11,994	11,994	-	-

As at 30 June 2017	Carrying amounts $'000	Contractual cash flows $'000	On demand $'000	1 to 12 months $'000	1 to 5 years $'000
Liabilities					
Accounts payable	11,830	11,830	11,830	-	-
Total financial liabilities	11,830	11,830	11,830	-	-

29. Financial instruments (continued)

Categories of financial assets and financial liabilities

As at 30 June 2018	Loans and Receivables $'000	At fair value through surplus or deficit $'000	Financial liabilities at amortised cost $'000	Total $'000
Assets				
Cash and cash equivalents	34,607	-	-	34,607
Other financial assets	-	146,632	-	146,632
Sundry receivables & other assets	7,497	-	-	7,497
Total financial assets	42,104	146,632	-	188,736
Liabilities				
Accounts payable	-	-	(12,573)	(12,573)
Total financial liabilities	-	-	(12,573)	(12,573)

As at 30 June 2017	Loans and Receivables $'000	At fair value through surplus or deficit $'000	Financial liabilities at amortised cost $'000	Total $'000
Assets				
Cash and cash equivalents	34,412	-	-	34,412
Other financial assets	-	119,457	-	119,457
Sundry receivables & other assets	7,837	-	-	7,837
Total financial assets	42,249	119,457	-	161,706
Liabilities				
Accounts payable	-	-	(12,430)	(12,430)
Total financial liabilities	-	-	(12,430)	(12,430)

Market risks

Foreign currency risk

The Group has exposure to foreign exchange risk, through its investment in three managed funds. This exposure relates to the translation of assets invested globally.

The Group manages its foreign exchange risk exposure through its Statement of Investment Policy and Objectives for Investment Funds. Exposure is limited by putting in place hedging and an outcome of this is the additional return that normally arises from the forward contracts which implement the hedging.

Interest rate risk

Interest rate risk is the risk that the value of the Group's assets and liabilities will fluctuate due to changes in the market interest rates. The Group is exposed to interest rate risk primarily through its cash and investments.

29. Financial instruments (continued)

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

The sensitivity analysis below has been determined based on the exposure to interest rates for financial instruments at the reporting date. The analysis is prepared assuming the balances of the financial instruments outstanding at the reporting date were outstanding for the whole year. A 100 basis point increase and decrease is used in the model to assess the impact on the income statement with all other variables held constant.

Equity price sensitivity analysis

The Group is exposed to equity price risks arising from equity investments.

Financial Assets

Financial Assets has a portfolio investment of cash and shares in managed fund. Risk analysis is therefore based on both changes in interest rate and equity price.

	Balance	Income impact of 1% fall in interest rate - deficit	Income impact of 1% increase in interest rate - (surplus)	Income impact of 5% fall in equity price - deficit	Income impact of 5% increase in equity price - (surplus)
As at 30 June 2018	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets					
Cash and cash equivalents	34,607	346	(346)	-	-
Other financial assets	146,632	104	(104)	6,813	(6,813)
Total financial assets	181,239	450	(450)	6,813	(6,813)
Total	181,239	450	(450)	6,813	(6,813)

	Balance	Income impact of 1% fall in interest rate - deficit	Income impact of 1% increase in interest rate - (surplus)	Income impact of 5% fall in equity price - deficit	Income impact of 5% increase in equity price - (surplus)
As at 30 June 2017	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets					
Cash and cash equivalents	34,412	344	(344)	-	-
Other financial assets	119,457	98	(98)	5,483	(5,483)
Total financial assets	153,869	442	(442)	5,483	(5,483)
Total	153,869	442	(442)	5,483	(5,483)

29. Financial instruments (continued)

Fair Values

The fair value of financial assets with standard terms and conditions, and traded on active liquid markets, is determined with reference to quoted market prices. The financial asset in this category is the managed fund investment which is a portfolio consisting of equities, trust units and fixed interest investments.

The fair values of each class of financial instruments approximates to the carrying value as stated in the financial statements.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at 30 June 2018	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Assets				
Other financial assets	22,980	123,652	-	146,632
Total financial assets	22,980	123,652	-	146,632

As at 30 June 2017	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Assets				
Other financial assets	21,728	97,729	-	119,457
Total financial assets	21,728	97,729	-	119,457

There were no transfers between Level 1 and 2 in the period.

Reconciliation of Level 3 fair value measurements of financial assets	2018 $'000	2017 $'000
Balance at beginning of period	-	-
Purchases	-	-
Sales	-	-
Gains/(losses) recognised in surplus or deficit (note 2)	-	-
Balance at end of period	-	-

Commodity and other market risk

The group has no significant exposure to commodity or other market risk.

Deloitte.

Independent Auditor's Report

To the Members of the New Zealand Automobile Association

Opinion

We have audited the financial statements of the New Zealand Automobile Association and its subsidiaries ('the Group'), which comprise the consolidated statement of financial position as at 30 June 2018, and the consolidated statement of comprehensive revenue and expense, statement of changes in net assets/equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 3 to 45, present fairly, in all material respects, the consolidated financial position of the group as at 30 June 2018, and its consolidated financial performance and cash flows for the year then ended in accordance with Public Benefit Entity Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

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

We are independent of the group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other assignments for the group in the area of other assurance services, taxation compliance and taxation advice. These services have not impaired our independence as auditor of the group. In addition to this, partners and employees of our firm deal with the entity and its subsidiaries on normal terms within the ordinary course of trading activities of the business of the entity and its subsidiaries. The firm has no other relationship with, or interest in, the entity or any of its subsidiaries.

Governing body's responsibilities for the consolidated financial statements

The Governing body is responsible on behalf of the group for the preparation and fair presentation of the consolidated financial statements in accordance with Public Benefit Entity Standards, and for such internal control as the Governing body determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Governing body is responsible on behalf of the group for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Governing body either intend to liquidate the group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

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

A further description of our responsibilities for the audit of the consolidated financial statements is located on at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-7

This description forms part of our auditor's report.

Restriction on use

This report is made solely to the Members, as a body, in accordance with Rules of the Association. Our audit has been undertaken so that we might state to the Members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte Limited

Auckland, New Zealand
25 October 2018

This audit report relates to the consolidated financial statements of New Zealand Automobile Association (the 'Group') and its subsidiaries (the 'Group') for the year ended 30 June 2018 included on the Group's website. The Governing body is responsible for the maintenance and integrity of the Group's website. We have not been engaged to report on the integrity of the Groups's website. We accept no responsibility for any changes that may have occurred to the consolidated financial statements since they were initially presented on the website. The audit report refers only to the consolidated financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these consolidated financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited consolidated financial statements and related audit report dated 25 October 2018 to confirm the information included in the audited consolidated financial statements presented on this website.

OUR PEOPLE

Across the AA, the sheer breadth and diversity of the roles the team of 1,000 employees performs throughout New Zealand reflects the scale and variety of the many businesses and services that the AA offers. When considering the results achieved by the AA, it is important also to reflect on their hard work in supporting communities, and the diversity of viewpoints and skills they offer, reflected in this year's NZAA Census.

We have an **even spread of age groups** across our organisation

Kids <18

1/3 of us have children under the age of 18

3% have 4 or more children

7% of us are Maori

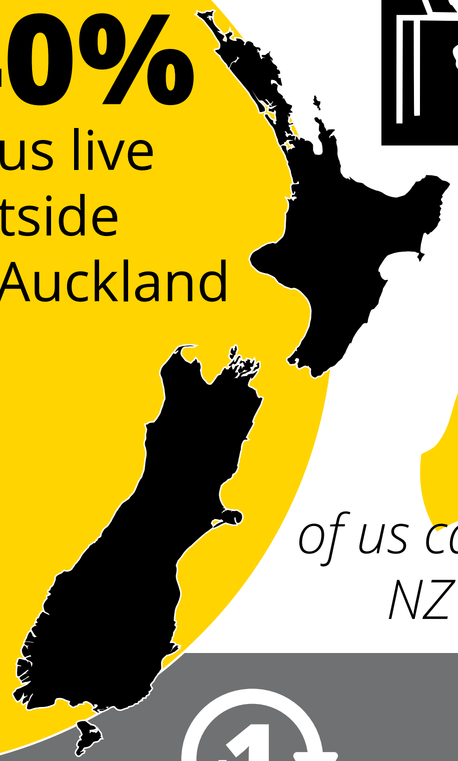
14% of us are of Indian Ethnicity

12% of us are studying Accounting/Psychology/ Automotive Engineering/ Business Administration/ Marine Science/Meat Technician/Equine Management/Chefing

60% of us were born in New Zealand

17% of those born overseas were born in **South Africa**

40% of us live outside of Auckland



41% of us can speak more than **1 language**

5 *of us can communicate in NZ Sign Language*

41% live within a **15 minute** commute to work in peak times

10% have more than a **60 minute** commute in peak times