



NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

FINANCIAL REPORT – 30 JUNE 2005

ABN 77 000 010 506

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National Roads and Motorists' Association Limited is a public company limited by guarantee, incorporated and domiciled in Australia. Its registered office and principal place of business is 388 George Street, Sydney NSW 2000.

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT

The following is the Directors report together with the consolidated financial report of National Roads and Motorists' Association Limited (The Consolidated Entity) for the year ended 30 June 2005. The independent auditors' report follows thereafter.

Current Directors

The following persons held office as Directors during the financial year and until the date of this report. Directors were in office for this entire period unless otherwise stated.

President

Mr AH (Alan) Evans GAICD

Mr Evans was appointed to the Board on 18 January 2003. He was elected as President on 27 January 2005. Mr Evans served as Deputy President from 23 January 2003 to 13 December 2003. He is Chairman of the Governance, Compensation and Nomination Committee. Mr Evans is Vice President of the Australian Automobile Association. He is Managing Director of Strategic Consulting Services Pty Ltd and a Director of Kistler Aerospace and Spaceport Woomera. Mr Evans sits on the Strategic Advisory Board of the John Curtin School of Medical Research. He was formerly CEO of Medicines Australia and has also held senior executive positions in federal and state governments including as Head of the Office of Regional Development, Executive General Manager of AusIndustry and Principal Adviser to the Federal Treasurer. He has qualifications in engineering, law and economics. Mr Evans is a strong supporter of all forms of motor sport and drives extensively throughout NSW and the ACT.

Deputy President

Mr MT (Michael) Tynan OAM QM FAICD

Mr Tynan was appointed to the Board on 18 January 2003. He was elected as Deputy President on 27 January 2005. Mr Tynan is the Chairman of the Finance & Investments Committee and a member of the Policy & Advocacy Committee. Mr Tynan is also a Director of NRMA Foundation Pty Limited. He is the Managing Director of the Tynan Motors Group. Mr Tynan was a Councillor and Mayor of the Sutherland Shire Council and was a former President of Motor Trades Association NSW. He serves on the National Board of Calvary Health Care Services and is Chairman of the National Planning and Development Committee. Mr Tynan is President of the Calvary Kogarah Foundation, Chair of Australian Automobile Dealer Association and a member of the Honda Foundation.

Mr GJ (Graham) Blight MAICD

Mr Blight was appointed to the Board on 18 January 2003. Mr Blight is the Chairman of the Policy & Advocacy Committee and a member of the Finance & Investments Committee. He is a rice, cereals and sheep farmer and a former trade representative and adviser on agricultural matters to the Federal Government. Mr Blight was President of the National Farmers' Federation from 1991-94 and President of the Ricegrowers Association of Australia for nine years. He was also President of the World Farmers' Federation from 1994-98 and consultant to the World Bank in 1996. Mr Blight was a Director of SunRice Australia from 1969-2003 and is now the Rice Industry Ambassador. He is Chairman of the Murrumbidgee Irrigation District Farmers Co-operative Ltd and Chairman of Encos Global Systems Ltd. He is a Director of several private and family company businesses across Australia.

Mr RD (Rob) Hugh BEc LLB FCA FTIA MAICD Public Notary

Mr Hugh was appointed to the Board on 28 January 2005. Mr Hugh is a member of the Audit, Risk Management & Compliance and Finance & Investments Committees. A practising solicitor and chartered accountant, Mr Hugh is Principal of the law firm Hugh & Associates. He is a Director of United Super Pty Limited which acts as trustee of the public offer superannuation fund CBUS (Construction and Building Unions Superannuation). He is also a director of various private trading and investment companies. Mr Hugh is a Fellow of the Institute of Chartered Accountants in Australia, a Fellow of the Taxation Institute of Australia and Member of the Australian Institute of Company Directors. Mr Hugh is a solicitor of the Supreme Court of New South Wales, The Supreme Court (England and Wales), High Court of Australia and various state Supreme Courts of Australia. Mr Hugh practises in the fields of corporate law, finance and litigation.

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT

Mr LJ (Laurie) Maher

Mr Maher was appointed to the Board on 18 January 2003. He is a member of the Finance & Investments and Policy & Advocacy Committees. Mr Maher is the Executive Officer of the Central Coast Emergency Accommodation Services which operates refuges for homeless people. He is a Director of Gosford Chamber of Commerce. Mr Maher is a Patron of the Central Coast Leagues Club and President of Country Rugby Union. He is also a Director of NSW Rugby. Mr Maher was elected as a Councillor on the Gosford City Council in March 2004.

Ms WS (Wendy) Machin BA (Communication), M. Comm.

Ms Machin was appointed to the Board on 30 March 2005. She is a member of the Governance, Compensation & Nomination and Policy & Advocacy Committees. Ms Machin is the Principal of Machin Consulting which provides services to a range of companies seeking advice and assistance with issues management, consumer issues and government relations. Ms Machin also owns and maintains a beef cattle property near Wingham, NSW. She is a member of the Migration Review Tribunal and the HIH Assistance Review Panel. Ms Machin was the first woman elected to represent the National Party in the NSW Legislative Assembly in 1985. She held portfolios in Government and Opposition including Minister for Consumer Affairs and Assistant Minister for Roads and Transport. Ms Machin was President of Save the Children Fund, NSW from 1996 to 2000, Deputy Chair of the Australian Republican Movement from 1997 to 2000 and has served on the National Council for the Prevention of Child Abuse and Neglect.

Ms JB (Jan) McClelland BA (Hons), BLegS, FACEL, FAIM, MAICD

Ms McClelland was appointed to the Board on 28 January 2005. Ms McClelland is a member of the Governance, Compensation & Nomination and Policy & Advocacy Committees. She is the Chair of NSW Businesslink Pty Ltd and a Director of the NSW Recycling and Processing Corporation, the Festival Development Corporation and Stewart House Preventorium. Ms McClelland is also a Member of the Council of the University of New England and an Associate of the University of Sydney. She holds a number of consultancies and has extensive experience in the development and implementation of strategic and operational reforms in education, training, human resources management, financial management, asset management, information technology and corporate governance. Ms McClelland is the former Director-General of the NSW Department of Education and Training and Managing Director of the NSW TAFE Commission. She is legally qualified and is a Fellow of the Australian Council of Educational Leaders, a Fellow of the Australian Institute of Management, a Member of the Institute of Public Administration of Australia and a Member of the Australian Institute of Company Directors.

The Hon GF (Gary) Punch B.Comm, LLB

Mr Punch was appointed to the Board on 13 April 2005. Mr Punch is a member of the Audit, Risk Management & Compliance and Finance & Investments Committees. A solicitor, Mr Punch specializes in employment and industrial law and strategic advice and representation for clients to government (federal, state and local). Mr Punch is Special Counsel at the national law firm Thomson Playford. He was a Minister in two Federal Labor Governments holding the portfolios of Defence, Science and Personnel, Telecommunications and Aviation Support and Arts and Territories. Mr Punch was the Chief Executive of Cotton Australia Limited from 1997 to 1999, the industry body for cotton growing. Mr Punch was the Honorary Chairman of the Sydney Olympic Soccer Football Club Ltd from 1996 to 1997 and is a former Director of the NSW Soccer Federation Ltd and the former Parramatta Power Club and is former Vice President of Autism NSW.

Mr G (Geoff) Toovey BBus, CA, MAICD

Mr Toovey was elected to the Board on 1 December 2001. He is the Chairman of the Audit, Risk Management & Compliance Committee and a member of the Governance, Compensation & Nomination Committee. Mr Toovey is a chartered accountant with over 13 years experience. He is also a Director of Manly Warringah Rugby League Football Club Limited. Mr Toovey played rugby league for Manly Warringah and represented both NSW and Australia. He is active in working with such groups as the NSW Wheelchair Association, the Spastic Centre, Ronald McDonald House, Westmead Children's Hospital, the Starlight Foundation, Youth off the Streets and the Variety Club.

Company Secretary

Ms Helen Burgess BA, LLB (Hons), FCIS, GAICD

The Company Secretary and General Counsel is Ms Helen Burgess, whose experience is as a senior lawyer with expertise in corporate law and corporate governance. Her previous roles include senior associate at a major law firm, Company Secretary at the Federal Airports Corporation and as General Counsel and Company Secretary at Sydney Airports Corporation Limited. Ms Burgess has qualifications as BA, LLB (Hons), is a Fellow of the Chartered Institute of Secretaries and a Graduate Member of the Australian Institute of Company Directors.

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT

Former Directors

The following individuals ceased to be Directors during the financial year.

Director	Commenced	Ceased
Mr JK Brett	18 January 2003	12 January 2005
Mr KM Hill	18 January 2003	26 August 2004
Ms JO Stack	18 January 2003	28 July 2004
Mr RV Turnbull	10 October 2003	08 April 2005

Principal activities

NRMA is one of Australia's largest mutual organisations. The principal activities of the Consolidated Entity revolve around the provision of a range of products and services that relate to the motoring needs of members. These include:

- roadside assistance services;
- travel and accommodation services;
- bi-monthly member magazine The Open Road;
- advocacy on motoring issues including road safety, petrol prices and vehicle safety standards; and
- a range of community service and road user education programs.

Directors are responsible for the investment of members' funds to support the mutual's principal activities.

There have been no significant changes in the nature of those activities during the year.

Result and review of operations

The operating profit of the Consolidated Entity after investment income for the year was \$38.1 million (2004: profit of \$0.8 million). The Consolidated Entity's operating profit attributed to members for the year was \$52.0 million (2004: profit of \$50.6 million) including \$37.6 million in change in net fair value of investments (2004: change in net fair value of investments \$52.8 million). This result confirms that NRMA is achieving the financial outcome of its 2004/07 Corporate Strategy. For information on the result and review of operations refer to the review of operations and financial condition on pages 11 to 14 of this report.

Likely developments and expected results of operations

The 2004/07 Corporate Strategy which aims to strengthen NRMA's financial position and secure the organisation's long term sustainability positively impacted the financial results in 2004/05. NRMA is now well placed to deliver value to its members' through a broader range of products, services and benefits.

State of Affairs

Significant changes in the state of affairs

There were no significant changes in the affairs of the Company and the Consolidated Entity.

Matters subsequent to the end of the financial year

There has not been any matter or circumstance that has arisen between 30 June 2005 and the date of this report, that has significantly affected, or may in financial years subsequent to 30 June 2005, significantly affect:-

- (i) the operations of the Consolidated Entity;
- (ii) the results of those operations; or
- (iii) the state of affairs of the Consolidated Entity.

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT

Directors' emoluments

Each Director of the Consolidated Entity receives a minimum of \$35,000 (2004: \$35,000) per annum in Board fees. The Deputy President and the President receive \$70,000 (2004: \$70,000) and \$105,000 (2004: \$105,000) respectively. Additional fees are payable to Directors other than the President and Deputy President for participation in some board committees. Each director is also entitled to be paid all travelling and other expenses incurred in connection with the business of the Consolidated Entity.

During the year with the resignation of three Directors and the disqualification of Mr RV Turnbull as a Director, the Board appointed four new Directors to fill the casual vacancies. The first two vacancies were filled 28 January 2005 with the final vacancy filled 13 April 2005.

The number of Directors from the Consolidated Entity that fall within the following remuneration bands (includes superannuation contributions) are:

	2005	2004
\$ 0 – \$ 9,999	3	-
\$ 10,000 – \$ 19,999	3	-
\$ 20,000 – \$ 29,999	-	4
\$ 30,000 – \$ 39,999	-	1
\$ 40,000 – \$ 49,999	1	2
\$ 50,000 – \$ 59,999	3	4
\$ 60,000 – \$ 69,999	-	2
\$ 70,000 – \$ 79,999	2	-
\$ 80,000 – \$ 89,999	1	-
\$110,000 – \$119,999	-	1

Senior Executives' emoluments

The Governance, Compensation and Nomination Committee, a sub committee of the board, is responsible for reviewing remuneration and other benefits and policies relating to recruitment, retention and termination of the Chief Executive Officer (CEO) and Senior Executive staff. It also reviews remuneration policies and other terms of employment applicable to the Chief Executive Officer, Senior Executives and the Directors themselves.

This table includes remuneration for the year ended 30 June 2005 for the top five Senior Executives who were employees at 30 June 2005:

	2005	2004
\$220,000 – \$229,999	-	1
\$310,000 – \$319,999	1	-
\$320,000 – \$329,999	-	1
\$350,000 – \$359,999	1	1
\$360,000 – \$369,999	-	1
\$380,000 – \$389,999	-	1
\$400,000 – \$409,999	1	-
\$430,000 – \$439,999	1	-
\$700,000 – \$709,999	1	-

The Senior Executives' emoluments consist of the following where applicable:

- Base salary;
- Annual and long service leave;
- Short and long term incentive payments for the previous performance period; and
- Other compensation including company superannuation contributions.

The prior year comparative includes executives who were employed and paid for part of the year only. The remuneration for those executives are for a full year in 2005.

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT

Directors' meetings

The number of meetings each Director was eligible to attend ("held") and actually attended ("attend") are summarised as follows:-

Directors	Board of Directors		Finance & Investments Committee		Audit, Risk Management & Compliance Committee		Policy & Advocacy Committee		Governance Compensation & Nomination Committee	
	held	attend	held	attend	held	attend	held	attend	held	attend
Mr GJ Blight	12	12	8	8			5	5		
Mr JK Brett	5	4	4	4	2	2				
Mr AH Evans	12	12	4	4					5	5
Mr KM Hill	2	1			1	-	3	-		
Mr RD Hugh	9#	8#	4	3	2	2				
Ms WS Machin	5*	5*					1	1		
Mr LJ Maher	12	11	4	4	2	2	5	4		
Ms JB McClelland	9#	9#					2	2	2	2
The Hon GF Punch	3	3	2	1	1	1				
Ms JO Stack	1	1							1	1
Mr G Toovey	12	12			4	4			5	5
Mr RV Turnbull	9	9					4	3	3	3
Mr MT Tynan	12	10	8	7	3	2	5	3		

The Governance, Compensation & Nomination Committee was formerly called the Remuneration Committee.

Includes 4 adjourned meetings, attended reconvened part of those meetings only.

* Includes 1 adjourned meeting, attended reconvened part of that meeting only.

Indemnification and Insurance of Directors and Officers

During the year, the Company effected a Directors' and Officers' liability insurance policy covering Directors and Officers in the Consolidated Entity. The insurance policy provides cover for the Directors named in this report, the Company Secretary, Officers and former Directors and Officers of the Consolidated Entity. The policy also provides cover for present and former Directors and Officers of related bodies corporate. The company has engaged an insurance broker, who seeks Directors' and Officers' liability insurance proposals from the insurance market and who assists the company in managing this policy. Terms, conditions and rates are commensurate with the market. The policy prohibits disclosure of the nature of the indemnification and insurance cover, and the amount of the premium.

Governance litigation

In January 2004, Mr Timothy Shelton, a member of NRMA and candidate at the 2001 and 2003 half Board elections, commenced proceedings against the NRMA in the Federal Court in Sydney. In May 2004, Mr Shelton filed an Amended Statement of Claim joining the 9 directors then in office and the 6 former directors as parties to the proceedings.

In June 2004, NRMA (and the other 14 respondents) filed a motion to have, among other things, Mr Shelton's Statement of Claim and Application struck out in their entirety. NRMA's motion was heard on 30 July and 2 August 2004 before Justice Tamberlin whose judgment was handed down 29 October 2004, where he ordered that the Statement of Claim and Application were so deficient that they should be struck out in their entirety.

In June 2005, Mr Shelton sought to discontinue the proceedings and consented to an order that he pay the costs of NRMA and the 14 respondents. On 1 July 2005, Mr Shelton filed a Notice of Discontinuance.

On 20 December 2004, Nicholas Whitlam (a former president and director of the Company) commenced proceedings against the NRMA in the Supreme Court of New South Wales. Mr Whitlam seeks an order that the NRMA pay to him monies compensating him for loss and damage allegedly suffered by him as a result of a television interview which was broadcast on 11 March 2001. The NRMA is vigorously resisting Mr Whitlam's claim.

Environmental regulation

The Consolidated Entity's operations are not subject to any particular and significant environmental regulations under either Commonwealth or State legislation. However, the Board of Directors believes that the Consolidated Entity has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Consolidated Entity.

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT

Rounding of amounts

Unless otherwise stated, amounts in the financial report and this report have been rounded to the nearest thousand dollars. The Consolidated Entity is of a kind referred to in the class order 98/0100 dated 10 July 1998 issued by the Australian Securities & Investments Commission. All rounding has been conducted in accordance with that class order.

NRMA Governance

Board of Directors and Management of NRMA

The role of the Board of Directors is to have primary responsibility to members for the welfare of NRMA by collectively guiding and appraising its strategies, major policies, processes and performance.

Under the Constitution, the Board is responsible for the management and control of the business and affairs of NRMA, the appointment of the Chief Executive Officer and Company Secretary, and the establishment of committees with either delegated authority or advisory functions.

The President and Deputy President are elected by the Board. The letter of appointment for the role of President sets out in detail the responsibilities and duties expected of the incumbent. During the year the Board consistent with its commitment to maintain the highest standards of corporate governance removed Mr RV Turnbull as President. Mr A Evans was subsequently elected as President and Mr M Tynan was elected as Deputy President upon the resignation of Mr J Brett.

The Chief Executive Officer, Mr Tony Stuart, is responsible for managing the day to day operations of NRMA and he has authority for implementing the strategic direction in accordance with the decisions of the Board. The Chief Executive Officer chairs the Executive Committee which comprises the senior managers who report directly to the CEO. This Committee meets regularly to review and report on NRMA's business activities including operations, financial and investment performance and strategic direction.

The roles of the Board and management are set out in the Board Charter and the NRMA Constitution.

Appointment of Directors

All Directors, including the President, are non-executive and independent of management. Under the Constitution an employee cannot act as a Director, therefore it is not currently possible for the roles of President and CEO to be exercised by the same person.

The 2005 Board Election is the first to be held under the system of regional elections to the Board introduced by the new Constitution adopted by members at the 2003 Annual General Meeting. Full details of the election process are being sent to members and can be found on NRMA's website. The newly elected directors will hold office for 3 years commencing 3 December 2005 unless they resign or their office becomes vacant in accordance with the Constitution. Although the new directors will be elected under a system of regional election, each director will be required to act in the interest of NRMA as a whole, not as a nominee of the region which elected them.

The term of office of the current Directors, whose background details are shown on pages 12-13 of this report, ends on 2 December 2005. Each of the current Directors is entitled to re-nominate for election in one of the nine regions established under the Constitution. The results of this election will be announced in the early part of November 2005.

Under the Constitution, where the office of a Director becomes vacant, the Board must fill the vacancy. Should such a casual vacancy occur, independent external advice is obtained to maintain the skills and mix of experience required on the Board.

Codes of Conduct

The Board has adopted a Directors' Code of Conduct which is displayed on the NRMA website. All Directors are required to undertake to observe the requirements of the Code. These include:

- to avoid conflicts of interest;
- to ensure no improper advantage of a Director's position is taken for personal gain;
- to maintain the confidentiality of NRMA information except where disclosure is authorised;
- to act honestly, in good faith and in the best interests of NRMA and its members;
- to perform the functions of office and exercise the powers attached to that office with reasonable care and diligence;

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT

- to use the powers of office for a proper purpose;
- to serve the interests of members of NRMA as a whole; and
- to devote such time as is necessary to carry out the duties required of a non-executive Director.

NRMA also has a Staff Code of Conduct for employees which covers such matters as conflicts of interest, corporate opportunities, confidentiality, fair dealing, NRMA assets and compliance.

Induction and continuing education of Directors

All Directors are encouraged to attend educational courses which serve to enhance their performance as Directors. Membership of the Australian Institute of Company Directors and participation in the Institute's course on the role and duties of Directors is also actively encouraged. Induction days designed for newly appointed Directors are held as required. An induction day has been arranged for December following the completion of the Board Election.

Remuneration of Directors and management

Details of Directors' remuneration are set out in the Directors' Report.

Under the Constitution, the members determine the aggregate remuneration payable to Directors and the Board determines its allocation between Directors. Directors are entitled to be paid all travelling and other expenses incurred in connection with attendances at Board and Committee meetings or otherwise in connection with the business of NRMA. There are no schemes for retirement benefits for Directors. Under the NRMA's Board Expenditure Policy, Directors are able to seek appropriate independent legal advice at NRMA's expense.

Executive remuneration is determined by reference to market information supplied by an independent expert consultant.

Performance review

During the year, a review of corporate governance procedures, in particular the role of the President and Directors was undertaken by an independent expert, Mr J Phillips. The recommendations have been reviewed by the Board and are being acted upon.

The performance review for the CEO is conducted by the Governance, Compensation and Nomination Committee, which then makes recommendations to the Board.

Board Committees

The Board has established four permanent committees with either delegated authority or an advisory role to assist the Board to perform its functions, as appropriate. All permanent committees have a Charter which the Board reviews and approves annually. Ad hoc committees, designated for a special purpose, are established as required. The four permanent committees and their key roles are set out below:

Audit, Risk Management and Compliance Committee

Role:

- supervise the internal risk control framework which is in place across NRMA, including internal controls dealing with the efficiency and effectiveness of significant business processes;
- assisting the Board in fulfilling its duties relating to accounting reporting practices, risk management and legal compliance; and
- making recommendations to the Board on the appointment, remuneration of the external auditor and monitor the effectiveness of the external audit.

The Committee has unlimited access to the Group Risk Manager and the external auditor, and this access may be without the presence of management.

Membership: Mr G Toovey (Chairman), Mr R Hugh and Mr G Punch

Finance & Investments Committee

Role:

- review of business development initiatives proposed by management and provide broad strategic advice and risk profile in investment policy;
- approve of strategic investments within the broader strategic framework for NRMA;
- make recommendations to the Board in respect of the annual budget; and
- conduct an annual review of the performance of the investment portfolio and advise the Board on matters arising from that review.

Membership: Mr MT Tynan (Chairman), Mr G Blight, Mr R Hugh, Mr L Maher and Mr G Punch

DIRECTORS' REPORT

Policy & Advocacy Committee

Role:

- consider issues of public policy for recommendation to the Board, including road safety, road funding, petrol pricing and transport infrastructure;

Membership: Mr G Blight (Chairman), Ms W Machin, Mr LJ Maher, Ms J McClelland and Mr MT Tynan

Governance, Compensation and Nomination Committee

Was formerly called the Remuneration Committee and its scope of operation was widened during the year to include governance and nomination matters.

Role: responsibility to the Board to

- review remuneration and other benefits and policies relating to recruitment, retention and termination of senior executive staff;
- review remuneration policies and other terms of employment applicable to the CEO, Senior Executives and the Directors themselves;
- monitor the performance of the CEO against agreed objectives and performance indicators and for consulting with the CEO on the performance reviews of Senior Executives;
- oversee succession planning;
- consider and propose suitable persons to fill any casual vacancies of Directors; and
- review the governance structure and practices of both the Board and NRMA.

Independent external advice may be obtained where relevant.

All senior management are set key performance targets which are assessed on an annual basis.

Membership: Mr A H Evans (Chairman), Ms W Machin, Ms J McClelland and Mr G Toovey

Accounts and audit

Management Representation to Board

Prior to the Directors approving these financial statements the CEO and CFO have provided a formal written representation stating to the Board that:

- the financial records of the NRMA have been properly maintained
- the financial report complies with all relevant accounting standards
- the financial report gives a true and fair view

Website

Information about the Board, senior management, the Constitution, the 2005 Election process and a summary of Board and Board Committee Charters can be found on the NRMA website www.mynrma.com.au under the tag "About Us".

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT

Auditor's Independence and Non-Audit Services

A statement of independence has been provided below by our auditor, Ernst & Young.

The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Signed at Albury this 31st day of August 2005 in accordance with a resolution of the Directors.



.....
A. Evans
President



.....
M. Tynan
Deputy President



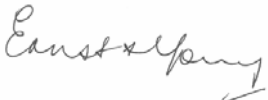
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Sydney NSW 2001

■ Tel 61 2 9248 5555
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Auditor's Independence Declaration to the Directors of National Roads & Motorists Association Limited

In relation to our audit of the financial report of National Roads and Motorists' Association Limited for the financial year ended 30 June 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



A M McDonald
Partner
31 August 2005

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

REVIEW OF OPERATIONS AND FINANCIAL CONDITION

FINANCIAL HIGHLIGHTS

The Consolidated Entity's operating profit before change in fair value of investments was \$38.1 million for the year. This compares favourably against the \$0.8 million profit in 2004. The \$37.3 million improvement in the operating profit after investment income confirms that NRMA is achieving the financial outcomes of its 2004/07 Corporate Strategy.

NRMA's financial sustainability has strengthened in 2004/05. Net assets increased by 13.3 % to \$624.9 million restoring its Balance Sheet to near the levels at the time of demutualisation. Profit from ordinary activities before income tax was \$75.8 million (2004:\$53.6 million). The Company achieved a net profit attributable to members of \$52.0 million, an improvement of \$1.4 million compared to 2003/04.

The major components of the financial results were:

- Overall revenue increased by 17% and expenses were 0.4% lower compared to previous year.
- Including the strategic shareholding in IAG, the portfolio returned 15.7%, with IAG shareholding increasing in value by \$29.6 million (\$20.7 million after tax). This gain was taken to an asset revaluation reserve in the Statement of Financial Position and not through the Statement of Financial Performance, as the investment in IAG Limited is not readily available for sale.
- Share of associated companies has generated profits of \$1.0 million (2004:\$0.6 million loss).
- Income tax expense of \$23.7 million, as the Consolidated Entity is now in a tax paying position. This includes an adjustment relating to prior years, primarily arising from entry into Tax Consolidation with effect from 1 July 2003.

OPERATIONS

The operating profit before change in fair value of investments was \$38.1 million (2004: \$0.8 million).

The \$37.3 million improvement over the previous year was largely attributable to:

- An increase of 30.1% in investment income due to a restructure of investments from a more volatile equity bias to a more conservative capital stable portfolio. The restructuring will continue as new opportunities become available during 2005/06.
- A membership revenue increase of 14% from price increases in August 2003 continued to flow into 2004/05 and a higher uptake of premium membership packages.
- An increase of 17% in other revenue, lessening the dependence on membership revenue.
- A 0.4% reduction in expenses after allowing for inflation.
- There were several one-off costs, including uptake of voluntary redundancies by Patrols costing \$4.6million as part of Enterprise Bargaining Agreement (EBA) efficiency reforms, brand awareness campaign spend of \$5.0 million and expenditure of \$1.9 million incurred for new initiatives such as the Safer Driving program, Mobile Member Centre and Driving Simulators. Depreciation costs also increased by \$1.0 million in part due to the investment in upgrading tools and equipment to better service our members. Consulting fees is also higher due to a number of operational reviews.
- Excluding these one-off costs, expenses were reduced by over \$14 million. Importantly, these savings have been achieved without sacrificing service levels.

OPERATIONAL INITIATIVES

- A new Enterprise Bargaining Agreement (EBA) negotiated with our patrols in late June 2004 was rolled out. Productivity improvements including workforce planning systems for rostering staff have been implemented with further improvements expected in 2005/06.
- A New Computer Aided Despatch (CAD) system has been launched in Canberra, Wollongong and Newcastle with the rest of the NSW roll out to take place in 2005/06. CAD has the ability to despatch road service calls automatically to our patrols. This provides NRMA the ability to attend to road service calls more effectively resulting in operational efficiencies and enhancing the service we provide to our members.
- The installation of General Packet Radio Service (GPRS) has equipped our Patrol vans with some of the latest technology.
- Additional benefits are now available to our members through the launching of NRMA branded Special Publication guides, NRMA Box Office and an Accommodation Booking service.
- As part of NRMA's Corporate Strategy of investing in both our members as well as staff, a cultural change program was implemented across NRMA during the year. From our investment in training and development our staff are now better equipped to service the interests of NRMA and its members. Development of new staff recognition and performance incentive programs has increased staff performance and accountability.
- To meet operational requirements two operational sites were consolidated into one key operational site at North Strathfield and properties acquired at Chatswood and Gosford. This has delivered cost savings, leading to improved synergies and efficiencies across the organisation.

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

REVIEW OF OPERATIONS AND FINANCIAL CONDITION

- NRMA is continuing to invest in new systems and processes to streamline all its operations. This includes current implementation of new financial systems.

OPERATIONAL ACHIEVEMENTS

Advocacy

During 2004/05 NRMA increased its expenditure on advocacy by 29% to \$3.5 million.

It acted as the Motorists' Champion advocating on a number of road safety issues, including a report on the "State of our Roads", leading the P-Plate debate, holding Better Roads panels across NSW & ACT, providing Community Road Safety grants, holding Road User forums, and lobbying the Roads Minister to adopt NRMA's position on school zones.

Road Service

- In 93% of instances in Sydney Metropolitan and Regional areas patrol officers successfully restarted member's vehicles ("go rate"). The go rate in Country areas was 85%.
- Patrols arrived at the scene of the roadside assistance within 60 minutes of the member calling for assistance in 94% of instances in Country areas. In the Metropolitan and Regional areas it was slightly lower at 88%.
- We answered 71% of members' calls for assistance within 20 seconds.
- Road service calls amounted to 1,696,315 jobs over the year.

SUPERANNUATION

The Plan is in surplus and a contribution holiday was in place throughout the financial year. The surplus of the Plan is not recorded in the Statement of Financial Position of the Consolidated Entity.

Had the plan not been on a super holiday the charge to Statement of Financial Performance would have been approximately \$7million.

INVESTMENTS

A new, more conservative investment policy

During the year NRMA, in conjunction with JANA Investment Advisers, reviewed and approved a new investment policy (5 November 2004), as part of our three-yearly review cycle. The new policy aims to ensure alignment between the investment strategy and the organisation's financial sustainability objective going forward. Key characteristics of the new policy compared to the previous policy are:

- Reduced risk
- Greater focus on reliable income, and
- Increased holdings over time in direct assets such as property.

The transition to the new investment mix began as soon as the new policy was approved, and restructuring will continue during 2005/06.

As at 30 June 2005 the portfolio asset mix (excluding IAG Limited) was as follows:

Asset Class	Weight %
Australian Equities	23
International Equities	12
Australian Fixed Interest	2
International Fixed Interest	2
Property	14
Cash	36
Growth Alternatives	9
Defensive Alternatives	2
Total	100

The current high cash holding in the portfolio is set aside to take advantage of direct investment opportunities as they occur, as part of the transition to our new investment policy. Whilst holdings in cash are yielding constant returns above inflation, NRMA is seeking opportunities to invest in direct assets (such as property) that can provide higher yields together with the potential for long term capital gains.

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

REVIEW OF OPERATIONS AND FINANCIAL CONDITION

Our first direct investment of this type took place in March 2005 with the acquisition of a 50% share in the Travelodge Hotel portfolio. Together with our joint venture partner, JF Meridian Trust, we purchased eight hotels in Australia and rights to the Travelodge brand throughout the Asia-Pacific region. In June 2005, we added another Sydney hotel to the portfolio, Travelodge Wynyard, bringing the total to nine hotels offering 1,623 rooms. This three-star hotel chain caters largely for the domestic accommodation market and represents a low-risk entry into the hotel market for NRMA. It is forecast to yield around 9% for 2005/06, providing solid income for the portfolio. In addition to the financial returns, NRMA members benefit from special deals for Travelodge accommodation, advertised through The Open Road and www.mynrma.com.au.

The 50% holding in the Travelodge joint venture means that this investment is now re-classified under Accounting Standards from being part of the broader investment portfolio to being an investment in associates.

Strong returns again in 2005

NRMA's investment portfolio returned a healthy 15.7% (including income and capital growth, before fees and tax) for the year. Excluding its strategic shareholding in IAG Limited, the return was 12.8%. This result is pleasing in a low-inflation economy and reflects the buoyant market conditions in both shares and property trusts in recent times.

The portfolio was spread across a diversified range of asset classes that provided the following investment returns (including income and capital growth, before fees and tax) during the 2004/05 financial year, compared to their respective benchmarks.

Asset Class	Return %	Benchmark %
Australian Shares (excluding IAG)	28.0	26.7
International Shares	13.6	8.3
Australian Fixed Interest	7.6	7.8
International Fixed Interest	11.4	11.6
Property	20.6	18.1
Cash	5.7	5.6
Total Fund	12.8	13.4

The portfolio modestly underperformed its total benchmark of 13.4% for the year. The underperformance occurred because we reduced our equities holdings, as part of the transition to a new, more conservative investment strategy. However, 12.8% is still a most satisfactory result in absolute terms.

What is also very pleasing is that our selected investment managers have outperformed their benchmarks. This confirms to us the benefits of appointing a range of experienced, professional managers in line with best investment practice. NRMA is supported in this selection process by the research and advice from JANA Investment Advisers Pty Ltd, the core investment adviser appointed by the NRMA Finance and Investments Committee.

IAG Limited

The performance of NRMA's strategic holding of 29.3 million IAG Limited shares was 26.0% for the year, including capital growth and dividends. This is a robust return, although slightly below the overall market benchmark of 26.7%.

NRMA's substantial investment in a single company involves higher risk than our more broadly diversified portfolio. As the value of the IAG holding fluctuates a great deal over time, it is treated as a long-term strategic investment outside the main portfolio. Furthermore, since this holding is a contractual requirement and is not available for sale in the foreseeable future, any changes in value are reflected as long term reserves as opposed to being taken through the Statement of Financial Performance.

A focus on income

Even though the new investment strategy is yet to be fully implemented, the 2004/05 results already reflect the increased focus on lower risk and in particular, higher income.

Investment income for the 2004/05 financial year was \$37.1 million (2004: \$28.5 million). The portfolio excluding IAG is valued at \$576.1 million (2004: \$514.9 million). The portfolio realised \$26.9 million (2004: \$17.1 million) in gains for the year with an unrealised component of \$10.8 million (2004: \$35.6 million).

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

REVIEW OF OPERATIONS AND FINANCIAL CONDITION

Expenses relating to managing the portfolio were \$2.3 million (2004: \$1.6 million) which includes consultant fees, management fees, transaction costs, custodian fees and all associated operational costs in running the investment function at NRMA. As expected, these were higher than the previous year due to the costs of substantial restructuring of the portfolio in line with the new investment policy, as well as increased one-off transaction and due diligence fees associated with direct investments such as the Travelodge joint venture.

The net profit from investments was \$73.5 million before tax which is in line with the previous year's strong performance and supports consistent income set out in the objectives of the new investment policy.

The year ahead

This year's profit levels are exceptional and are unlikely to be maintained over the coming year as the rate of returns in equity markets moderates and the portfolio is more conservatively invested towards income-producing investments. However, we expect the portfolio will continue to provide consistent income and modest growth to support the financial sustainability of NRMA going forward. This year will see the NRMA Investment team continue to monitor existing investments and seek additional opportunities to expand our direct investment portfolio through investment in property, infrastructure and other high-yielding assets.

INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

NRMA equity accounts investments in three associated companies:

Australian Motoring Services Pty Ltd (AMS)

NRMA owns 35% of AMS, with the other motoring clubs in Australia being shareholders in line with their respective membership numbers. AMS conducts Australia wide commercial activities on behalf of the motoring clubs – primarily Assist Australia, which provides wholesale roadside assistance and AAA Tourism, which gives accommodation operators "star ratings" and publishes accommodation guides.

Club Assist

NRMA owns 25% of Club Assist through its shareholding in Club Assets Pty Ltd. Club Assist provides mobile battery service to motoring clubs worldwide. NRMA Batteries is the largest retailer of motor vehicle batteries in NSW.

Travelodge

In March 2005 NRMA entered into a joint venture with JF Meridian Trust to purchase a chain of hotels with the "Travelodge" brand. From these events, the hotel assets, brand and trademark interests are held in a unit trust called the Tucker Box Hotel Trust, with the hotels in turn leased to Toga Hospitality Group. As at 30 June 2005 the joint venture had acquired nine hotels across Sydney, Melbourne and Brisbane with NRMA's contribution into the Trust valued at \$65.6 million.

OUTLOOK

Leading into 2005/06 NRMA is well positioned to achieve the financial outcomes of its 2004/07 Corporate Strategy. Its improved financial position will enable its long term financial, social and environmental sustainability. It also enables NRMA to foster a member focused and values oriented culture thereby further enhancing member value and becoming the Motorists' Champion.

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES
STATEMENT OF FINANCIAL PERFORMANCE

	<u>Notes</u>	Consolidated Group		Company	
		2005	2004	2005	2004
		\$000	\$000	\$000	\$000
Revenue from Operations	3.	205,815	179,526	29,091	27,291
Investment income	4.	37,129	28,538	2,529	2,066
Total Revenue from Operating Activities		242,944	208,064	31,620	29,357
Annual General Meeting, Special General Meetings & Election expenses		(3,061)	(13,485)	(3,061)	(13,485)
Expenses from investment management		(2,293)	(1,643)	-	-
Other expenses from Operations	5.	(200,512)	(191,535)	(23,524)	(17,156)
Total expenses from Operating Activities		(205,866)	(206,663)	(26,585)	(30,641)
Share of net profits/(losses) of associates accounted for using the equity method	19.	1,033	(582)	-	-
Operating profit before change in fair value of investments		38,111	819	5,035	(1,284)
Change in net fair value of investments	4.	37,639	52,788	-	(270)
Profit from ordinary activities before income tax		75,750	53,607	5,035	(1,554)
Income tax expense relating to ordinary activities	6.	(23,730)	(2,999)	-	-
Net profit attributable to members of the parent entity	18(b)	52,020	50,608	5,035	(1,554)
Changes in equity					
Net profit attributable to members of the parent entity		52,020	50,608	5,035	(1,554)
Net credit to asset revaluation reserve	18(a)	21,270	32,816	-	-
Total changes in equity other than those resulting from transactions with owners as owners		73,290	83,424	5,035	(1,554)

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES
STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2005

		Consolidated Group		Company	
	Notes	2005 \$000	2004 \$000	2005 \$000	2004 \$000
Current assets					
Cash and cash equivalents	21.	10,970	8,192	1	1
Receivables	10.	4,704	29,868	106,487	101,160
Deferred acquisition costs	11.	2,753	4,101	600	-
Prepayments		813	595	-	-
Total current assets		19,240	42,756	107,088	101,161
Non-current assets					
Investments	12.	730,877	633,475	400,000	400,000
Investments accounted for using the equity method	19.	29,841	9,799	-	-
Property, Plant and equipment	14.	37,545	25,038	1,377	301
Deferred acquisition costs	13.	467	456	-	-
Total non-current assets		798,730	668,768	401,377	400,301
Total assets		817,970	711,524	508,465	501,462
Current liabilities					
Payables	15.	19,938	22,315	5,441	2,196
Current tax liabilities		12,438	-	-	-
Provisions employee related	16.	12,810	13,905	765	478
Unearned income	1c(i)	87,234	84,488	14,519	15,934
Total current liabilities		132,420	120,708	20,725	18,608
Non-current liabilities					
Provisions employee entitlements	17.	5,912	6,207	55	46
Provision for deferred tax liability		37,056	17,061	-	-
Unearned income	1c(i)	9,579	9,388	1,613	1,771
Security deposit	1(p)	8,109	6,556	-	-
Total non-current liabilities		60,656	39,212	1,668	1,817
Total liabilities		193,076	159,920	22,393	20,425
Net assets		624,894	551,604	486,072	481,037
Equity					
Reserves	18(a)	54,086	32,816	-	-
Retained profits	18(b)	570,808	518,788	486,072	481,037
Total equity		624,894	551,604	486,072	481,037

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2005

	<u>Notes</u>	Consolidated Group		Company	
		2005	2004	2005	2004
		\$000	\$000	\$000	\$000
Cash flows from operating activities					
Receipts from members and customers		230,264	220,261	22,191	30,123
Payments to suppliers and employees		(222,688)	(213,652)	(23,591)	(32,251)
Dividends received		26,506	31,453	-	-
Interest received		10,978	2,303	2,529	2,070
Net income taxes paid		(129)	(47)	-	62
Net cash from operating activities	20.	44,931	40,318	1,129	4
Cash flows from investing activities					
Proceeds from disposal of investments		287,107	307,193	1	-
Proceeds from disposal of fixed assets		1,578	1,196	-	-
Outlays for investments acquired		(309,557)	(373,358)	-	-
Outlays for fixed assets acquired		(21,281)	(9,889)	(1,130)	(3)
Net cash used in investing activities		(42,153)	(74,858)	(1,129)	(3)
Cash flows from financing activities					
Net cash from financing activities		-	-	-	-
Net increase / (decrease) in cash held		2,778	(34,540)	-	1
Cash at the beginning of the financial year		8,192	42,732	1	-
Cash at the end of the financial year	21.	10,970	8,192	1	1

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

1. Summary of significant accounting policies

This general purpose financial report has been prepared in accordance with applicable Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001.

The financial statements have been prepared in accordance with the historical cost convention, except for investments, which are at net market value and provision for long service leave measured at net present value and certain freehold properties that are at independent valuations.

(a) Principles of consolidation

The financial statements of the Consolidated Entity represent the results of the Company and those entities which it controlled at anytime during the financial year or at year end.

The information from financial statements of controlled entities are included from the date control commences until the date control ceases. The effects of all transactions between entities in the Consolidated Entity are eliminated.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Certain comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures. Any such restatement of comparatives does not impact the net result.

(b) Change in accounting policies

The accounting policies adopted are consistent with those of the previous year.

(c) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

- (i) Member revenue
Revenue from members' entrance fees are recognised when received upon taking up membership. Revenue from ongoing subscriptions are recognised over the time period covered by the subscription with the unearned portion transferred to the unearned income provision. Revenue from other services is recognised at the time that the service to the member is provided.
- (ii) Revenue from investments
Interest revenue is brought to account on an accruals basis. Dividends on publicly listed shares are recognised on the date the dividend is declared. Income from investments in unit trusts is recognised on the date the distribution is declared. Rental revenue is recognised on the date that the rent is due under the rental contract.
- (iii) Changes in the net fair value of investments
Gains or losses in investments are calculated as the difference between the net market value at sale or at year-end, and the net market value at the previous valuation point. This includes both realised and unrealised gains and losses.
- (iv) Revenue from shares in associates and joint ventures
Revenue from associates and joint ventures is recognised when distributions, dividends or interest are received.

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

1. Summary of significant accounting policies (continued)

(d) Cash and cash equivalents

Cash on hand and in banks are stated at nominal value.

For the purposes of the Statement of Cash Flows, cash includes cash on hand and cash in banks, and is used for operating activities. Cash held as part of the investment portfolio are classified as investment assets.

(e) Investments

Unless otherwise indicated, the Consolidated Entity values investment assets available for sale in the ordinary course of business at net market value, allowing for estimated realisation costs. Changes in net market value are recognised as a revenue or expense in determining the net profit for the year.

(i) Listed and Unlisted Securities

Investments in listed and unlisted securities that are not controlled entities or associates are carried in the financial statements at net market value. Any capital gains tax which may become payable has not been taken into account in determining the carrying value of securities. Market values are determined as follows:

- Listed shares and securities – by reference to market quotations
- Unlisted shares and securities – fund manager valuation

(ii) Investments in Controlled Entities

Investments in controlled entities are carried in the Consolidated Entity's financial statements at the lower of cost and recoverable amount.

(iii) Investment in Insurance Australia Group Limited ("IAG")

In accordance with the Implementation Deed entered into between NRMA and IAG at the time of the de-merger, NRMA is required to maintain an investment of 29.3 million IAG Shares. This agreement remains in place unless both parties agree to a variation. As such, the investment held in IAG has been classified as securities not readily available for sale, with effect from 1 July 2003. As a result of this classification, any unrealised gains in the fair value of IAG shares are charged to the Asset Revaluation Reserve after allowing for any tax liabilities that would arise if the shares were sold at that price.

(iv) Associates

In the Consolidated Entity's financial statements, investments in associates are accounted for using equity accounting principles and are carried at the lower of the equity accounted amount and recoverable amount. In the Company's financial statements they are accounted for at the lower of cost and recoverable amount.

The Consolidated Entity applies AASB 1016: Accounting for Investments in Associates, which requires the application of the equity accounting method in respect of interests in associates. The result is:

- the inclusion of post acquisition net profits and losses in the Statement of Financial Performance;
- the separate identification of investments accounted for using the equity method in the Statement of Financial Performance; and
- corresponding notes detailing the Consolidated Entity's share of post acquisition profits, assets and liabilities.

(v) Joint Venture

Interest in joint venture entity is recognised by including in the respective classifications, the share of individual assets employed and share of liabilities and expenses incurred.

The Consolidated Financial report measures the interest in joint venture by applying the equity accounting method as set out in AASB 1006 Interest in Joint Ventures. Interest in joint venture is carried at the lower of the equity accounted amount and recoverable amount in the Company's financial statements.

(vi) Freehold Property

Certain freehold property has been measured at the most recent independent valuation being the amounts for which the asset could be exchanged between willing parties in an arm's length transaction. Revaluations are made with sufficient regularity to ensure that the carrying amount of each piece of freehold property does not materially differ from its fair value at the reporting date. Where assets have been revalued, the potential effect of the capital gains tax on disposal has not been taken into account in the determination of the revalued carrying amount.

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

1. Summary of significant accounting policies (continued)

(f) Deferred acquisition cost

Certain costs that are referable to the processing of members' subscriptions are deferred and brought to account as expenses in line with the earning of the underlying subscription income. Deferred acquisition costs are measured at the lower of cost and recoverable amount.

(g) Depreciation

Property, Plant and Equipment is depreciated using the straight line method at rates based on the expected useful lives of the assets.

The depreciation rates used for each class of asset are as follows:

Land and Building	2.5%
Motor vehicles	15%
Office and other plant and equipment	20% – 40%
Software	20% – 40%

(h) Employee entitlements

(i) Wages, salaries and annual leave

Liabilities for wages, salaries and leave entitlements apart from long service leave are recognised at the nominal amounts unpaid at the reporting date based on remuneration rates which are expected to be paid when the liability is settled including related on-costs.

(ii) Long service leave

A liability for long service leave is recognised as the net present value of estimated future cash outflows to be made for services provided by employees up to the reporting date. The estimated future cash outflows are discounted using interest rates on national government bonds which have terms to maturity that match, as closely as possible, the estimated future cash outflows. Factors which affect the estimated future cash outflows such as the expected future increases in remuneration rates including related on-costs, experience of employee departures and period of service are incorporated in the estimate.

(iii) Superannuation

The Consolidated Entity participates in the IAG and NRMA Superannuation Plan (the Plan). The Consolidated Entity contributes to the Plan in accordance with the rules and recommendations of the Plan's actuaries, which are designed to ensure that the Plan's funding provides sufficient assets to meet its liabilities. The Plan is currently in surplus and a contribution holiday was in place throughout the financial year. The Plan also covers employees of non related companies.

(iv) Termination Benefits

Liabilities for termination benefits, not associated with restructuring activities, are recognised when a detailed plan for the terminations has been developed and a valid expectation has been raised that the terminations will be carried out in the employees that are affected.

(i) Capitalised project costs

Project costs are expensed as incurred, except where the future benefits are expected, beyond any reasonable doubt to exceed those costs. Deferred costs are reviewed at each balance date to determine the amount (if any) that is no longer recoverable and any amount that is identified is provided against.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

1. Summary of significant accounting policies (continued)

(j) Financial instruments included in assets and liabilities

(ii) Receivables

Receivables are carried at the nominal amount due and are normally settled within 30 days. The collectability of debts is assessed and provision is made for any doubtful debt. Bad debts are written-off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis.

(ii) Payables

Payables are carried at the amount to be paid in the future for goods or services received and are normally settled within 30 days. Payables to related parties are carried at the principal amount.

(k) Recoverable amount

Non-current assets measured using the cost basis are not carried at an amount above their recoverable amount, and where a carrying value exceeds this recoverable amount, the asset is written down. In determining the recoverable amount, the expected net cashflows have not been discounted to their present value.

(l) Provisions

Provisions are recognised when there is a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

(m) Taxation

The assessable income of the Consolidated Entity for income tax purposes comprises only certain income deemed to be derived from non-member activities. Conversely, allowable deductions for income tax purposes are limited to certain expenses and statutory deductions. Tax effect accounting procedures are followed whereby the income tax expense is matched with the accounting profit after allowing for permanent differences. Any future income tax benefit relating to tax losses is not carried forward as an asset unless the benefit can be regarded as being virtually certain of realisation. Income tax on net cumulative timing differences is set aside to the deferred income tax and future income tax benefit accounts at the tax rates which are expected to apply when those timing differences reverse. The income tax rate is 30%.

The new Business Tax system (Consolidation and Other Measures) No.2 Bill 2002 was passed on 21 October 2002. The Consolidated Entity entered into Tax Consolidation with effect from 1 July 2003.

(n) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included as part of current receivables and payables in the statement of financial position. Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

1. Summary of significant accounting policies (continued)

(o) Derivative financial instruments

Through its investment managers, the Consolidated Entity may utilise derivative financial instruments in connection with its portfolio investments, to enhance the returns and hedge against foreign currency exchange rates, fixed interest rate and stock market exposures. Forward exchange contracts are recognised at the date the contract is entered into. Unrealised gains or losses on forward exchange contracts are calculated by reference to the current forward exchange rates for contracts with similar maturity profile and are charged to the Statement of Financial Performance.

(p) Security deposit

This represents a payment received from Australian Motoring Services Pty Limited (AMS) an associate, as security for services to be provided under a fee for service agreement. This covers roadside assistance provided on behalf of AMS to vehicles within their national assistance programs. Revenue earned from this service is brought to account when the service is provided.

(q) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating Leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis. Where the lessor has provided a rent holiday, the benefit of that holiday is being recognised over the full term of the lease. Contingent rentals are recognised as an expense in the financial year in which they are incurred.

2. Entity limited by guarantee

National Roads and Motorists' Association Limited is a company limited by guarantee of members to contribute, in the event of a winding up, a sum not exceeding \$2.10 (2004: \$2.10) per member. There are 1,918,827 members at 30 June 2005 (2004: 1,920,807).

The Company's Constitution prevents the payment of dividends.

In accordance with the Terms and Conditions of Membership by which all Members are bound, only one person or corporate representative per Membership is entitled to voting rights. A Member who holds two or more Memberships is issued with a "duplicate Membership" and is not entitled to additional voting rights.

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

3. Operating profit/(loss) before investment income

	Consolidated Group		Company	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
Revenue from Operations	205,815	179,526	29,091	27,291
Other expenses from Operations	(200,512)	(191,535)	(23,524)	(17,156)
Annual General Meeting, Special General Meetings & Election expenses	(3,061)	(13,485)	(3,061)	(13,485)
Operating profit/(loss) before investment income and change in fair value of investments	2,242	(25,494)	2,506	(3,350)

4. Revenue

Revenue from operations				
(i) Services				
Membership entrance fees	3,655	3,329	-	-
Membership subscriptions	168,729	147,666	29,091	27,291
Vehicle inspections	6,827	7,408	-	-
The Open Road Advertising	4,530	4,741	-	-
Travel	4,125	3,792	-	-
Technical services	1,359	1,378	-	-
Commercial road service	13,930	8,798	-	-
Other	2,660	2,414	-	-
	205,815	179,526	29,091	27,291
(ii) Investment income				
Dividends and distributions - other corporations	26,068	26,177	-	-
Interest - other corporations	10,985	2,278	2,529	2,066
Rentals - other corporations	76	83	-	-
	37,129	28,538	2,529	2,066
Total revenue from operating activities	242,944	208,064	31,620	29,357
(iii) Change in net fair value of investments				
Realised gains and losses	26,884	17,145	-	(270)
Unrealised gains and losses	10,755	35,643	-	-
	37,639	52,788	-	(270)

Revenue from Operations includes revenue from associates amounting to \$10,675,000.

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Consolidated Group		Company	
2005	2004	2005	2004
\$000	\$000	\$000	\$000

5. Expenses

Expenses of operations				
Depreciation of motor vehicles	2,025	3,271	33	-
Depreciation of office and other plant and equipment	4,777	2,531	116	95
Total depreciation	6,802	5,802	149	95
Employee salary and on costs	76,061	74,595	3,751	2,271
Redundancy cost	5,409	4,271	-	-
Motor vehicle - operating	3,866	4,257	58	-
Bad and doubtful debts	-	25	-	-
Operating lease rentals	3,976	3,683	275	95
Road service & tow ing contractors	33,431	31,560	-	-
Outsourced shared services to IAG	18,055	22,351	-	-
The Open Road print & distribution	7,714	6,780	-	-
Advertising, public relations & sponsorships	15,553	8,719	5,038	1,145
Printing postage and stationery	4,067	3,721	580	554
Governance and related cost	2,490	3,654	2,490	3,654
Management fees - related party	-	-	7,766	7,950
Consultants, contractors and advisors	8,023	4,582	1,803	132
Legal	348	793	12	55
Other operating costs	14,717	16,742	1,602	1,205
Total expenses from operations	200,512	191,535	23,524	17,156

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated Group		Company		
	Notes	2005 \$000	2004 \$000	2005 \$000	2004 \$000
6. Income tax					
The prima facie tax on the profit/(loss) from ordinary activities differs from the income tax provided in the financial statements and is reconciled as follows:					
Profit/(Loss) from ordinary activities before income tax expense		75,750	53,607	5,035	(1,554)
Prima facie tax thereon at 30%		22,725	16,082	1,511	(466)
Tax effect of permanent differences:					
Share of associates net profit		(310)	174	-	-
Imputation credits		(3,872)	(3,520)	-	-
Realised capital losses/(profits) not subject to income tax		-	(775)	-	-
Future income tax benefit arising from current year tax losses not recognised/(utilised) at reporting date		2,257	(2,257)	-	-
Non-deductible net mutual (income/expenses)		(2,140)	1,062	(1,511)	1,062
Other non-deductible items		392	44	-	-
Utilisation of tax benefit relating to tax losses not previously booked		-	(7,811)	-	(596)
Under provision from prior years		4,678	-	-	-
Aggregate income tax expense/(benefit)		23,730	2,999	-	-

Effective 1 July 2003 the Consolidated Entity formed a Tax Consolidated Group for income tax purposes. The under provision from prior years primarily relates to the adjustment to the value of non-deductible net mutual income identified on completion of the first consolidated tax return for the year ended 30 June 2004. The Consolidated Entity derives income and incurs expenditure from both mutual and non-mutual sources. Mutual sources refers to income received from members and expenses incurred in generating that income. Non-mutual sources comprise non member operating income (and associated expenses) and net investment income.

7. Dividend franking account

The amount of franking credits available for the subsequent financial year are:

Franking account balance as at the end of the financial year at 30% (2004:30%)

Franking credits that will arise from the payment of income tax payable as at the end of the financial year

Franking credits that will arise from the receipts of dividends recognised as receivables at the reporting date

Consolidated Group		Company	
2005 \$000	2004 \$000	2005 \$000	2004 \$000
150,970	145,894	150,970	145,894
132	48	113	48
5,531	5,028	5,531	5,028
156,633	150,970	156,614	150,970

The balance of the franking account arises from franked income received and income tax paid, after adjusting for any franking credits which will arise from the payment of income tax provided for in the financial statements and franking credits that will arise from the receipt of dividends recognised as receivables at year end. The Consolidated Entity Constitution prevents the payment of dividends, and accordingly, the franking credits are not utilised.

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated Group		Company	
	2005	2004	2005	2004
	\$	\$	\$	\$
8. Auditor's remuneration				
The auditors of the Consolidated Group are Ernst & Young				
Remuneration of auditors of the Consolidated Group and each of its controlled entities				
Audit of the financial reports - current year	192,000	175,000	10,000	10,000
Audit of the financial reports - prior year	80,665	14,100	-	-
	272,665	189,100	10,000	10,000
Other assurance related services by Ernst & Young				
Tax advisory services	-	2,500	-	-
Accounting advice	28,000	-	-	-
Service in relation to validation of information prepared for Annual General Meeting	-	5,250	-	-
Review of Superannuation plan arrangement	-	97,539	-	-
Review of proposed Patrol Officers Enterprise Agreement	-	55,419	-	-
Review of Workers' Compensation Return	3,500	-	-	-
Review of Outsourced transactional processing arrangements	-	4,567	-	-
Due diligence on acquisitions	134,698	-	-	-
Review of membership system	81,000	-	-	-
Special accounting system review	7,250	-	-	-
	254,448	165,275	-	-
	527,113	354,375	10,000	10,000

The Consolidated Entity, through its Board Audit, Risk Management & Compliance Committee, considers these other services as ancillary to or an extension of the external audit services provided by the auditors.

	2005	2004	2005	2004
	\$	\$	\$	\$
9. Directors' remuneration				
Income paid or payable, or otherwise made available, to directors by entities in the Consolidated Group and related parties in connection with the management of affairs of the Consolidated Group or its controlled entities. Includes Superannuation Contributions.				
	521,772	677,505	521,772	677,505

The number of directors of the Consolidated Entity whose remuneration was within the following bands:

	2005	2004
\$ 0 – \$ 9,999	3	-
\$ 10,000 – \$ 19,999	3	-
\$ 20,000 – \$ 29,999	-	4
\$ 30,000 – \$ 39,999	-	1
\$ 40,000 – \$ 49,999	1	2
\$ 50,000 – \$ 59,999	3	4
\$ 60,000 – \$ 69,999	-	2
\$ 70,000 – \$ 79,999	2	-
\$ 80,000 – \$ 89,999	1	-
\$ 110,000 – \$ 119,999	-	1

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated Group		Company	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
10. Receivables - current				
Trade debtors	3,172	1,415	-	-
Provision for doubtful debts	(23)	(78)	-	-
	3,149	1,337	-	-
Goods and service tax	745	-	1	-
Controlled entities	-	-	106,486	101,160
Other investment receivables	810	28,531	-	-
	4,704	29,868	106,487	101,160
11. Deferred acquisition costs				
Deferred acquisition costs	2,753	4,101	600	-
12. Investments - non-current				
Investments held at fair value				
Insurance Australia Group Limited (IAG) * refer to note 1e(iii)	176,093	146,500	-	-
Investments held at net market value				
Cash management trust	157,961	104,915	-	-
Australian shares	131,401	146,897	-	-
Overseas shares fund	72,078	107,171	-	-
Fixed interest securities fund	95,971	67,163	-	-
Listed property trust	-	60,158	-	-
Diversified unit trust	51,907	-	-	-
Loans to joint venture - Travelodge	44,250	-	-	-
Investments in controlled entities	-	-	400,000	400,000
Freehold properties at independent valuation**	1,216	671	-	-
	730,877	633,475	400,000	400,000
* NRMA holds 1.8% of IAG's issued ordinary shares (2004: 1.8%).				
** Reconciliations of carrying amounts in freehold properties				
Carrying amount at start of the year	671	681	-	-
Additions	-	-	-	-
Disposals	-	-	-	-
Depreciation expense	(10)	(10)	-	-
Revaluation	555	-	-	-
Carrying amount at end of the year	1,216	671	-	-

The fair value of freehold land and buildings on freehold land have been based upon an independent valuation prepared by Paul Carroll (certified practising valuer) from PJC Property Services (NSW) Pty Ltd on 30 June 2005.

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated Group		Company	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
13. Deferred acquisition costs -non current				
Deferred acquisition costs	467	456	-	-
14. Property, Plant and equipment - non-current				
Land and Building (at cost)	8,495	-	-	-
Accumulated depreciation	(9)	-	-	-
	8,486	-	-	-
Motor vehicles (at cost)	20,278	21,305	499	-
Accumulated depreciation	(12,553)	(12,058)	(60)	-
	7,725	9,247	439	-
Written down value				
Office and other plant and equipment (at cost less provision)	42,384	33,452	1,002	411
Accumulated depreciation	(21,050)	(17,661)	(64)	(110)
	21,334	15,791	938	301
Written down value				
	37,545	25,038	1,377	301

Reconciliations

Reconciliations of the carrying amounts of each class of plant and equipment at the beginning and end of the current financial year are set out below.

(i) Land and Building

Carrying amount at start of the year	-	-	-	-
Additions	8,495	-	-	-
Disposals	-	-	-	-
Depreciation expense	(9)	-	-	-
Carrying amount at end of the year	8,486	-	-	-

(ii) Motor vehicles

Carrying amount at start of the year	9,247	13,741	-	-
Transfer within group	-	-	89	-
Additions	2,383	176	410	-
Disposals	(1,880)	(1,399)	-	-
Transfer accumulated depreciation within group	-	-	(27)	-
Depreciation expense	(2,025)	(3,271)	(33)	-
Carrying amount at end of the year	7,725	9,247	439	-

(iii) Office and other plant and equipment

Carrying amount at start of the year	15,791	14,002	301	661
Additions	10,737	8,510	991	6
Provision for impairment	-	(2,800)	-	-
Disposals	(436)	(1,400)	(235)	(270)
Depreciation expense	(4,758)	(2,521)	(119)	(96)
Carrying amount at end of the year	21,334	15,791	938	301

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated Group		Company	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
15. Payables - current				
Trade creditors and accruals	19,938	21,509	5,441	2,197
Goods and service tax	-	806	-	(1)
	19,938	22,315	5,441	2,196
16. Provisions - current				
Employee entitlements	11,676	11,815	765	478
Restructure - Employee related	1,134	167	-	-
Other	-	1,923	-	-
	12,810	13,905	765	478
17. Provisions - non-current				
Employee entitlements	5,912	6,207	55	46

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated Group		Company	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
18. Reserves, Retained Profits and Equity				
(a) Asset revaluation reserve				
Balance at the beginning of the financial year	32,816	-	-	-
Increment revaluation of investment in IAG shares.	20,715	32,816	-	-
Revaluation increment on valuation of:				
Land	534	-	-	-
Building	21	-	-	-
Net credit in the year	21,270	-	-	-
Balance at the end of the financial year	54,086	32,816	-	-
Nature and purpose of reserve				
The asset revaluation reserve is used to record increments and decrements in the value of IAG shares and non current assets				
(b) Retained profits	570,808	518,788	486,072	481,037
Movements in retained profits				
Balance at the beginning of the financial year	518,788	468,180	481,037	482,591
Net profit/(loss) attributable to members	52,020	50,608	5,035	(1,554)
Balance at the end of the financial year	570,808	518,788	486,072	481,037
(c) Equity	624,894	551,604	486,072	481,037
Movements in equity				
Balance at the beginning of the financial year	551,604	468,180	481,037	482,591
Total changes in equity recognised in the Statement of Financial Performance	52,020	50,608	5,035	(1,554)
Revaluation increments	21,270	32,816	-	-
Balance at the end of the financial year	624,894	551,604	486,072	481,037

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

		Consolidated group		Company	
		2005	2004	2005	2004
		\$000	\$000	\$000	\$000
19. Investments accounted for using the equity method					
Carrying amount of investments					
Investment in associates	19 (a)	8,501	9,799	-	-
Investments in joint ventures	19 (b)	21,340	-	-	-
		29,841	9,799	-	-
Net profit/(loss) accounted for using the equity method					
Investment in associates	19 (c)	341	(582)	-	-
Investments in joint ventures	19 (d)	692	-	-	-
		1,033	(582)	-	-

(a) Details of investments in associates are as follows:

Name of Entity	Principal Activities	Balance Date	Ownership Interest Group and Company			Investment Carrying Amount Consolidated Group		Company	
			2005 %	2004 %		2005 \$000	2004 \$000	2005 \$000	2004 \$000
Associates									
- Club Assets Pty Limited	Motoring assistance services	30 June	50%	50%	Shares	7,750	8,074	-	-
- Australian Motoring Services Pty Limited	Motoring and travel assistance services	30 June	35%	35%	Shares	751	1,725	-	-
- Intelematics Pty Limited	Intelligent transport systems	30 June	-	50%	Shares/ Convertible notes	-	-	-	-
Total						8,501	9,799	-	-

The investment in intelematics was disposed on the 26th of May 2005 for \$850,000.

(b) Details of investments in joint ventures are as follows:

Name of Entity	Principal Activities	Balance Date	Ownership Interest Group and Company			Investment Carrying Amount Consolidated Group		Company	
			2005 %	2004 %		2005 \$000	2004 \$000	2005 \$000	2004 \$000
Joint Venture Entity									
Travelodge Group	Accommodation	30 June	50%	-		21,340	-	-	-
Total						21,340	-	-	-

The investment in the Travelodge Group was made on the 31st March 2005.

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

19. Investment accounted for using equity method continued

	Consolidated group		Company	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
(c) Results of associates				
Share of profit from ordinary activities before income tax expense	712	53	-	-
Share of income tax expense related to ordinary activities	(371)	(635)	-	-
Share of associates net profit/(loss) accounted for using the equity method	341	(582)	-	-
Summary financial position of associates				
The Consolidated group's share of aggregate assets and liabilities of associates is as follows:				
Current assets	16,970	13,679	-	-
Non-current assets	9,541	13,670	-	-
Total assets	26,511	27,349		
Current liabilities	12,480	12,492	-	-
Non-current liabilities	5,530	5,058	-	-
Total liabilities	18,010	17,550	-	-
Net assets as reported by associates	8,501	9,799	-	-
Retained profits of the Consolidated group attributable to associates				
Balance at the beginning of the year	(6,527)	(5,945)	-	-
Share of associates net profits/(losses)	341	(582)	-	-
Balance at the end of the financial year	(6,186)	(6,527)	-	-
Movement in carrying amount of investments				
Carrying amount of investment in associates at beginning of year	9,799	9,681	-	-
Increase in investment in associates during the year	-	700	-	-
Dividends received from associates	(1,639)	-	-	-
Shares of associates net profit/(loss)	341	(582)	-	-
Carrying amount of investments in associates at end of year	8,501	9,799	-	-

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

19. Investment accounted for using equity method continued

	Consolidated group		Company	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
(d) Results of joint venture				
- Revenue	2,237	-	-	-
- Expense	1,545	-	-	-
Share of profit from ordinary activities before income tax expense	692	-	-	-
Share of income tax expense related to ordinary activities	-	-	-	-
Share of joint venture net profit accounted for using the equity method	692	-	-	-

Summary financial position of joint venture

The Consolidated group's share of aggregate assets and liabilities of the joint venture is as follows:

Current assets	1,362	-	-	-
Non-current assets	118,561	-	-	-
Total assets	119,923	-	-	-
Current liabilities	83	-	-	-
Non-current liabilities	98,500	-	-	-
Total liabilities	98,583	-	-	-
Net assets as reported by joint venture	21,340	-	-	-

Retained profits of the Consolidated group attributable to joint venture

Balance at the beginning of the year	-	-	-	-
Share of joint venture net profits	692	-	-	-
Dividends received from joint venture	(312)	-	-	-
Balance at the end of the financial year	380	-	-	-

Movement in carrying amount of investments

Carrying amount of investment in joint venture at beginning of year	-	-	-	-
Increase in investment in joint venture during the year	20,960	-	-	-
Dividends received from joint venture	(312)	-	-	-
Share of joint venture net profit	692	-	-	-
Carrying amount of investments in joint venture at end of year	21,340	-	-	-

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated Group		Company	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
20. Reconciliation of net cash (used in)/provided by operating activities to operating (loss)/profit after income tax				
Profit/(Loss) from ordinary activities after tax	52,020	50,608	5,035	(1,554)
Non-Cash Items				
(Profits)/losses on disposal of assets	727	1,603	234	270
Depreciation of plant and equipment	6,802	5,802	152	95
Change in net fair value of investments	(37,639)	(50,809)	-	-
Bad and doubtful debts	-	25	-	-
Provision for impairment	-	2,800	-	-
(Increase)/decrease in operating assets				
Receivables	619	7,893	(5,327)	(3,006)
Prepayment	1,119	5,279	(600)	-
Other	1,679	474	-	-
(Decrease)/increase in operating liabilities				
Accounts payable	(7,051)	5,698	2,912	1,223
Provisions	(1,390)	(8,892)	296	(85)
Unearned income	4,490	19,837	(1,573)	3,061
Current tax liability	12,438	-	-	-
Deferred tax liability	11,117	-	-	-
Net cash from operating activities	44,931	40,318	1,129	4

21. Reconciliation of cash and cash equivalents

Operating cash	10,970	8,192	1	1
Investment cash	157,961	104,915	-	-
Total Cash	168,931	113,107	1	1

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated Group		Company	
	2005	2004	2005	2004
	\$000	\$000	\$000	\$000
22. Financing arrangements				
Total facilities available:				
Guarantee by bank	819	819	-	-
Group offset overdraft facility	-	1,000	-	-

23. Commitments for expenditure

Commitments for expenditure

(a) Estimated capital expenditure contracted for at reporting date, but not provided for, payable:

Capital expenditure commitments	6,701	1,907	6,701	1,907
	6,701	1,907	6,701	1,907

(b) Operating lease

- due within 1 year	2,799	2,117	2,799	2,117
- due within 1 to 5 years	10,080	11,952	10,080	11,952
- due after 5 years	1,740	3,821	1,740	3,821
	14,619	17,890	14,619	17,890

(c) Non cancellable rental commitments

- due within 1 year	67	67	67	67
- due within 1 to 5 years	143	210	143	210
	210	277	210	277

The Consolidated Entity leases property under non-cancellable operating leases expiring from one to four years. Leases generally provide the Consolidated Entity with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in Consumer Price Index or operating criteria.

Contingent liabilities

The Consolidated Entity did not have any contingent liabilities at 30 June 2005.

24. Investments in controlled entities

Name of entity	Place of incorporation	Percentage of shares held		Investment \$000	
		2005	2004	2005	2004
		%	%	\$000	\$000
National Roads & Motorists' Association (N.S.W.) Limited	Australia	100	100	-	-
NRMA Consolidated Limited	Australia	100	100	400,000	400,000
NRMA Enterprises Pty Limited	Australia	100	100	-	-
NRMA Holdings Limited	Australia	100	100	-	-
NRMA Limited	Australia	100	100	-	-
NRMA Motoring Limited	Australia	100	100	-	-
NRMA Mutual Group Limited	Australia	100	100	-	-
NRMA Open Road Pty Limited	Australia	100	100	-	-
NRMA Treasury Limited	Australia	100	100	-	-
NRMA Travel Pty Limited	Australia	100	100	-	-

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

25. Related party disclosures

(a) Directors

The Directors who held office in National Roads and Motorists' Association Limited during the financial year were:

Director	Commenced	Ceased
Mr GJ Blight	18 January 2003	
Mr JK Brett	18 January 2003	12 January 2005
Mr AH Evans	18 January 2003	
Mr KM Hill	18 January 2003	26 August 2004
Mr RD Hugh	28 January 2005	
Mr LJ Maher	18 January 2003	
Ms WS Machin	30 March 2005	
Ms JB McClelland	28 January 2005	
The Hon GF Punch	13 April 2005	
Ms JO Stack	18 January 2003	28 July 2004
Mr G Toovey	01 December 2001	
Mr RV Turnbull	10 October 2002	08 April 2005
Mr MT Tynan	18 January 2003	

(b) Wholly-owned group

The wholly-owned group consists of National Roads and Motorists' Association Limited and its wholly-owned controlled entities. Ownership interests in these controlled entities are set out in note 24.

All transactions with related parties are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions. Intercompany loans are charged interest at commercial rates.

(c) Associate Related Entities

All transactions with Australia Motoring Services Pty Limited (AMS) and Club Assists are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions.

(d) Joint Venture Entities

Interest received from Travelodge is based on market rates.

(e) Former Directors

In 2004, the Company provided the Director (Mr RV Turnbull) with an advance of \$16,790 for travel to be undertaken on behalf of the Company. Some of that advance remains unreconciled and an amount of \$5,522 was set off against Directors fees otherwise payable to Mr Turnbull. The Company is liaising with Mr Turnbull's trustee in bankruptcy with a view to having the full advance reconciled.

On 20 December 2004, Nicholas Whitlam (a former president and director of the Company) commenced proceedings against the Company in the Supreme Court of New South Wales. Mr Whitlam seeks an order that the Company pay to him monies compensating him for loss and damage allegedly suffered by him as a result of a television interview which was broadcast on 11 March 2001. The Company is vigorously resisting Mr Whitlam's claim.

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

		Consolidated Group		Company	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
26. Employee entitlements	<u>Notes</u>				
(i) Provision for employee entitlements					
Current	16.	11,676	11,815	765	478
Non-current	17.	5,912	6,207	55	46
Aggregate employee benefit liability		17,588	18,022	820	524
Movements in provision					
Employee entitlements					
Carrying amount at the beginning of the financial year		18,022	24,504	524	609
Additional provision		9,850	12,692	590	448
Amounts utilised during the year		(10,284)	(19,174)	(294)	(533)
Carrying amount at the end of the financial year		17,588	18,022	820	524
(ii) Restructure - Employee Related					
Current	16.	1,134	167	-	-
The provision relates to redundancies expected to occur in the next financial year.					
Movement in provision					
Carrying amount at the beginning of the financial year		167	3,889	-	-
Additional provision		1,058	-	-	-
Amounts utilised during the year		(91)	(3,722)	-	-
Carrying amount at the end of the financial year		1,134	167	-	-
(iii) Provision - Other					
Current	16.	-	1923	-	-
Carrying amount at the beginning of the financial year		1,923	611	-	-
Additional provision		-	1,312	-	-
Amounts utilised during the year		(1,923)	-	-	-
Carrying amount at the end of the financial year		-	1,923	-	-
(iv) Employee numbers					
Average number of employees during the financial year		909	934	23	17

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

26. Employee benefit (continued)

(v) Superannuation Plan

Most existing employees, and all new employees of the Consolidated Entity, are eligible to be members of the IAG and NRMA Superannuation Plan (the Plan). On 1st December 2003, the Plan was partitioned into two sub-plans. The NRMA sub-plan has been established for employees and former employees of the Consolidated Entity. The majority of members participate in the Plan on an accumulated benefits basis and a minority on a defined benefit basis.

The unaudited financial position of the NRMA Sub Plan is:

	2005	2004
	\$000	\$000
Date of last actuarial valuation – 30 th June 2005		
Net market value of net assets held by the Plan	134.2	150.7
Present value of employees' accrued benefits	107.0	119.6
Excess of net assets over accrued benefits	<u>27.2</u>	<u>31.1</u>
Vested benefits	<u>104.9</u>	<u>117.4</u>

The accrued benefits for defined benefit members of the Plan are determined on the basis of the present value of expected future payments which arise from membership of the Plan up to the measurement date. The accrued benefits are determined by reference to expected future salary levels and are discounted by using market-based, risk adjusted discount rate.

Vested benefits are the benefits which would be payable to plan members if all employees voluntarily resigned as at the reporting date.

The Plan is in surplus and a contribution holiday was in place throughout the financial year. The surplus of the Plan is not recorded in the Statement of Financial Position of the Consolidated Entity.

Had the plan not been on a super holiday the charge to Statement of Financial Performance would have been approximately \$7million.

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

27. Segment reporting

The Consolidated Entity operates predominantly in one geographical area, Australia.

The Consolidated Entity operates predominantly in one business segment, being the provision of road and other services to its members and customers. The other main source of revenue for the Consolidated Entity is investment income which is generated from a significant base of investments. Therefore, investment related activity is reported below as a separate business segment.

Segment accounting policies are the same as the Consolidated Entity's accounting policies described

Business segments	Services		Investments		Total	
	2005	2004	2005	2004	2005	2004
	\$000	\$000	\$000	\$000	\$000	\$000
Revenue						
External segment revenue	205,815	179,526	74,768	81,326	280,583	260,852
Total segment revenue	205,815	179,526	74,768	81,326	280,583	260,852
Result						
Segment result	2,242	(25,494)	72,475	79,683	74,717	54,189
Share of net profit/ (loss) result of equity accounted investments	-	-	1,033	(582)	1,033	(582)
Profit from ordinary activities before income tax					75,750	53,607
Income tax expense relating to ordinary activities					(23,730)	(2,999)
Net profit attributable to members of the parent entity					52,020	50,608
Depreciation and amortisation	6,802	5,802	-	-	6,802	5,802
Other non-cash items	-	25	10,755	35,060	10,755	35,085
Assets						
Segment assets	56,442	39,718	731,687	662,007	788,129	701,725
Equity accounted investments	-	-	29,841	9,799	29,841	9,799
Consolidated total assets					817,970	711,524
Liabilities						
Segment liabilities	192,326	159,557	750	363	193,076	159,920
Consolidated total liabilities					193,076	159,920
Other segment information						
Assets acquired						
Property, Plant and Equipment	21,615	8,686	-	-	21,615	8,686

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

28. Financial instruments

(a) Interest rate risk exposures

The interest rate risk exposures of the Consolidated Entity result from the holding of financial assets and liabilities in the normal course of business.

The exposure to interest rate risk and the weighted average effective interest rates on the financial assets and liabilities of the Consolidated Entity are summarised in the following tables:

		Fixed interest rate maturing in						Weighted
	Notes	Floating interest rate \$000	1 year or less \$000	Over 1 to 5 years \$000	More than 5 years \$000	Non- interest bearing \$000	Total \$000	average interest rate %
2005								
Financial assets								
Cash and deposits	21.	10,970	-	-	-	-	10,970	5.50
Receivables	10.	-	-	-	-	4,704	4,704	-
Other investments	12.	-	-	-	-	730,877	730,877	-
		<u>10,970</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>735,581</u>	<u>746,551</u>	<u>-</u>
Financial liabilities								
Accounts payable	15.	-	-	-	-	19,938	19,938	-
2004								
Financial assets								
Cash and deposits	21.	8,192	-	-	-	-	8,192	5.27
Receivables	10.	-	-	-	-	29,868	29,868	-
Other investments	12.	-	-	-	-	633,475	633,475	-
		<u>8,192</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>663,343</u>	<u>671,535</u>	<u>-</u>
Financial liabilities								
Accounts payable	15.	-	-	-	-	22,315	22,315	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

28. Financial instruments (continued)

(b) Credit risk

The maximum credit risk exposures of the Company and the Consolidated Entity are the non-repayment of receivables, loans and advances due from third parties and the amounts are as indicated by the carrying amount of the financial assets. There is no significant concentration of credit risk as the Consolidated Entity transacts with a large number of individual debtors without any single one being material.

(c) Net fair values of financial assets and liabilities

The Consolidated Entity's financial assets and liabilities are carried in the statements of financial position at historical cost, except for portfolio investments which are valued at net market value. The carrying amounts of all financial assets and liabilities are reviewed to ensure they are not in excess of the net fair value.

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities

Recognised financial instruments

Cash and deposits – The carrying amount approximates fair value because of their short-term to maturity.

Receivables – The carrying amount approximates fair value.

In each case their carrying values approximate their net fair value. Further details in relation to the valuation methods applied are outlined in Note 1.

(d) Investment risk

The investment portfolio is subject to investment risk due to fluctuations in investment markets both in Australia and overseas.

The Consolidated Entity has sought to control the two key components of investment risk through:

- asset allocation risk controls that include the specification of a strategic asset allocation and rebalancing ranges around that strategic asset allocation; and
- stock selection risk controls that are specified in each of the Company's mandates with its investment managers.

29. Matters subsequent to the end of the financial year

There has not been any matter or circumstance that has arisen between 30 June 2005 and the date of this report, that has significantly affected, or may in financial years subsequent to 30 June 2005, significantly affect:-

- (i) the operations of the Consolidated Entity;
- (ii) the results of those operations; or
- (iii) the state of affairs of the Consolidated Entity.

NATIONAL ROADS AND MOTORISTS' ASSOCIATION LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

30. Impact of adopting AASB equivalents to IASB standards

The Consolidated Entity has commenced transitioning its accounting policies and financial reporting from current Australian Standards to Australian equivalents of International Financial Reporting Standards (A-IFRS). The Consolidated Entity's Audit, Risk Management & Compliance Committee will oversee the process and make necessary recommendations to the Board of Directors. As the Consolidated Entity has a 30 June year end, an opening balance sheet in accordance with AASB equivalents to IFRS will be prepared at 1 July 2004. This will form the basis of accounting for Australian equivalents of IFRS in the future, and is required when the Consolidated Entity prepares its first fully A-IFRS compliant financial report for the year ended 30 June 2006.

The A-IFRS implementation process has not been fully completed at the time of preparation of this financial report and, accordingly, NRMA has not been able to quantify all of the impacts on the consolidated financial report at this time. Set out below, however, are areas where accounting policies will change and where the impact on the financial report of the Consolidated Entity was considered to be potentially significant.

The possible impact has been quantified on a "best estimate" basis at the date of preparing the 30 June 2005 financial report. The actual impacts are subject to the transition and implementation work that is yet to be fully completed in the coming financial year. The actual effects of transition to A-IFRS may differ from that disclosed due to:

- (a) work to be undertaken by the A-IFRS project team;
- (b) potential amendments to A-IFRS and Interpretations thereof being issued by the standard-setters and IFRIC; and
- (c) emerging accepted practice in the interpretation and application of AIFRS and UIG interpretations.

Financial assets (including investments and receivables)

The key impact for investments under A-IFRS is that investments will no longer be valued at last trade price, they will now be valued at bid price. The financial or "quantified" impact of moving to A-IFRS is considered to be immaterial based on management's best estimate at this time. As at 30 June 2005 the A-IFRS impact is reasonably estimated to be negative \$195,000 on the investment portfolio valued in excess \$700 million.

Post employment benefits

The Consolidated Entity has elected to early adopt the version of AASB 119 Employee Benefits issued in December 2004 to be effective from 1 January 2005 in line with the adoption of A-IFRS.

Under A-IFRS the relevant net position of defined benefit plans will be recognised in the statement of financial position. The movement in the net position will be recognised in the statement of financial performance, except for actuarial gains and losses, which will be recognised directly in retained earnings, in line with accounting option selected under AASB 119.

The net position of the defined benefit superannuation plans is currently not recognised in the Consolidated Entity's statement of financial position although some information is disclosed in the notes to the annual financial report.

It is important to note that the net position of the defined superannuation plans calculated under A-IFRS is different to that calculated for purposes of note disclosure in accordance with Australian GAAP because of the use of different measurement requirement in the actuarial calculations of obligations to employee members. The principal difference is the discount rate applied to determine the present value of those obligations.

The net position of the defined benefit plans as at 30 June 2004 under A-IFRS a surplus of \$35.2 million, will be recognised in retained earnings as at 1 July 2004. The net position as at 30 June 2005 under A-IFRS is a surplus of \$29.7 million. The movement in the net position of \$5.5 million will be recognised through an expense in the A-IFRS statement of financial performance for the period 30 June 2005 and the recognition of a credit to equity reserve for \$29.7 million.

Insurance Contracts

AASB 4 relates to accounting for insurance contracts. At present, this Standard appears likely to be applicable to automobile clubs. Any potential financial impact on the Consolidated Entity's financial report has not yet been fully determined at this time, however the most significant impact is expected to be in disclosure.

Taxation

A "balance sheet" approach to tax-effect accounting is followed under A-IFRS replacing the current "statement of financial performance" approach. This approach recognises deferred tax balances when there is a difference between the carrying value of an asset or liability and its tax base. Any potential financial impact on the Consolidated Entity's financial report has not yet been determined.

DIRECTORS' DECLARATION

In the opinion of the directors of National Roads and Motorists' Association Limited:

- (a) the financial statements and notes of the Company and of the Consolidated Entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and the Consolidated Entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company and the Consolidated Entity will be able to pay its debts as and when they become due and payable.

Signed at Albury this 31st day of August 2005 in accordance with a resolution of the Directors.



.....
A. Evans
President



.....
M. Tynan
Deputy President

Independent audit report to members of National Roads and Motorists' Association Limited

Matters relating to the Electronic Presentation of the Audited Financial Report

This audit report relates to the financial report of National Roads and Motorists' Association Limited (the company) and the consolidated entity for the year ended 30 June 2005 included on the company's web site. The company's directors are responsible for the integrity of the company's web site. We have not been engaged to report on the integrity of the company's web site. The audit report refers only to the statements below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for the company and the consolidated entity, for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Independence

We are independent of the company and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration a copy of which is included in the Directors' Report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion

In our opinion, the financial report of National Roads and Motorists' Association Limited is in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of National Roads and Motorists' Association and the consolidated entity at 30 June 2005 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



A M McDonald
Partner
Sydney
31 August 2005

Liability limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW).