carsales.com ltd

ABN 91-074-444-018

Annual Report 2010

carsales.com.au

Australia's No.1 because it works!

Corporate Directory

Directors
Wal Pisciotta (Non-Executive Chairman)
Greg Roebuck (Managing Director)
Ric Collins (Non-Executive Director)
Ian Law (Non-Executive Director)
Pat O'Sullivan (Non-Executive Director)
Adrian MacKenzie (Non-Executive Director)
Jeffrey Browne (Non-Executive Director)
Steve Kloss (Alternate Director)
Kim Anderson (Non-Executive Director)
Graham Brooke (Non-Executive Director)

Company Secretary
Cameron McIntyre
Margaret Beattie

Registered Office
Level 1, 109 Burwood Rd
Hawthorn VIC 3122

T: +61 3 9093 8600
F: +61 3 9093 8697
W: www.carsales.com.au

Share Registry
Computershare Ltd
452 Johnston street
Abbotsford Vic 3067

T: +61 3 9415 4000
F: +61 3 9473 2500

W: www.computershare.com

Auditor
PricewaterhouseCoopers
Freshwater Place
2 Southbank Boulevard
Southbank VIC 3006

Stock Exchange
carsales.com Ltd is a public company listed with the Australian Stock Exchange Limited

ASX: CRZ

ASX Full-year information - 30 June 2010

Contents

Results for Announcement to the Market

Results for Announcement to the Market 30 June 2010

				$'000
Revenue from ordinary activities	up	**28%**	to	**123,130**
Profit from ordinary activities after tax attributable to members	up	**41%**	to	**43,235**
Net profit for the period attributable to members	up	**41%**	to	**43,235**

Dividends / Distributions	Amount per security (cents)	Franked amount per security (cents)
2009 Final Dividend paid	7.8	7.8
2010 Interim Dividend paid	6.6	6.6
2010 Final Dividend declared	8.3	8.3

Record date for determining entitlements to the final dividend	22nd September, 2010
Dividend payable	6th October, 2010

Net tangible Assets
Net tangible asset backing per ordinary share is 0.38 cents (2008: -1.5 cents)

Other information as required by Listing Rule 4.3A
Other information requiring disclosure to comply with Listing Rule 4.3A is contained in the 30 June 2010 Financial Report.

"It's difficult to remember a more transformational year in the company's thirteen year history than this one and with so much change taking place we still managed to over deliver against our Prospectus EBITDA forecast of $56.6 million by 14 percent."

Wal Pisciotta

Chairman's letter to shareholders

Chairman's letter to shareholders

Dear Shareholders,

The Board is pleased to present the company's full Annual Report for the financial year ending 30 June 2010.

It's difficult to remember a more transformational year in the company's thirteen year history than this one and with so much change taking place we still managed to over deliver against our Prospectus EBITDA forecast of $56.6 million by 14 percent. A reconciliation of actual EBITDA to profit is disclosed in note 4. Some of the major financial highlights of the past twelve months are as follows:

- **Revenue up 28.4 percent on previous corresponding period (pcp) from $96.3 million to $123.6 million**
- **Profit (EBITDA) up 47.7 percent on pcp from $43.7 million to $64.5 million**
- **EBITDA margins grew on pcp from 45.6 percent to 52.4 percent**
- **Net Profit (after tax) up 40.9 percent on pcp from $30.7 million to $43.2 million**
- **Operating Cashflow up 54.1 percent on pcp from $32.7 million to $50.4 million**

The Board has declared a final 2010 dividend of 8.3 cents per share fully franked. The dividend payment will have a record date of the 22nd of September 2010 and a payment date of the 6th of October 2010.

No doubt it was very pleasing for all our existing shareholders as it was for the Board to finally see the company successfully list on the Australian Stock Exchange on the 10th of September 2009 and then be included in the S&P/ASX200 index in December 2009.

While the journey to become ASX listed was a long one having been contemplated back in 2000, the nature of the market we found ourselves in last year was such that any process had to be completed in the context of a very tight time frame. Both the Board and management team were very well supported throughout by our advisors Macquarie Bank, Arnold Bloch Leibler Lawyers and PricewaterhouseCoopers Accountants and I would like to publically thank them for their contributions in making our ASX membership such a successful one for all shareholders.

During the past twelve months we have made a number of improvements to our corporate governance processes including the expansion of the scope of the Board Audit Committee to include the oversight of the company Risk Management Program as well as the extension of the Board Remuneration Committee scope to include the oversight of Board nomination.

The Board has continued to function extremely effectively and we more recently welcomed two additional Board members to the company being Kim Anderson and Graham Brooke, which takes the size of the Board to 9. These additional appointments have brought new and complementary skills, experience and input, while also enabling an increase in the number of deemed Independent Non Executive Directors for compliance purposes.

The past twelve months have seen some interesting developments in the global automotive industry with new car sales of 57 million down 19 percent from the 2007 high and China for the first time selling more new cars than the United States in 2009. In Australia new vehicle sales saw some decline from the 2007 highs, although our market has been far more resilient and not just in new car sales but also in used car sales.

Underpinning this resilience within the industry has been a number of economic factors such as lower interest rates, the Federal Governments stimuli to Australian households, the Australian Taxation Offices Investment Allowance to the business sector and the ongoing strength in employment to name a few.

As far as the Australian advertising market goes, this past financial year can be best described as a year of two halves, particularly in the case of our online display advertising business Mediamotive. Major advertisers certainly began to find their way back after emerging from the Global Financial Crisis in the second half and this is clearly evident in the financial performance of Mediamotive, which is very encouraging.

As a business we have continued our clear focus and commitment to product and market development over this past year and we are particularly encouraged by not only what we have managed to achieve but also what exciting new opportunities are in front of us. There are many, many things for us to do from evolving the development of new digital channels such as the iPhone/iPad to continuing the extension of new products such as LiveMarket all aimed at delivering the best possible quality solutions to our customers.

On behalf of the Board of Directors, I would like to thank our customers for their continued endorsement of what we do and our shareholders for their ongoing encouragement and support. I would also like to particularly thank our '2009 Australian Entrepreneur of the Year' Greg Roebuck and his team, for doing all that they have done this year, their dedication, hard work and commitment to carsales has been first class and it shows not just in our financial performance but in everything that makes carsales such a great business.

Sincerely,

Wal Pisciotta
Chairman
Hawthorn, 18 August 2010

Managing Director's review of operations

Managing Director's review of operations

Dear Shareholders,

It seems that every year as I write this update to you, that it's been our biggest year ever – FY2010 has been no exception! 12 months ago we were flat out preparing to list the company on the ASX and I'm pleased to be providing you with this update, as a successfully listed S&P/ASX200 company.

Our core automotive business has continued to perform extremely well. While 2009 calendar year saw new vehicle sales fall, used vehicle sales improved. Our strong market leading position combined with numerous site improvements saw consumers shift significantly from our competitors and to carsales.com.au.

I am often asked about the Dealer relationships and how the growth in this part of our revenue is received by this core group of customers. We work very hard as a business to ensure we are close to our Dealers and maintain the great working relationships built up over many years. We recently held our Dealer Advisory Board meeting in Melbourne, where we got excellent insights into what our customers are looking for from carsales. It was an extremely positive meeting and all the feedback to date has been excellent. These sort of events, plus the 100 or so field staff that spend most of their days in dealerships, are good examples of our focus in this area.

The private seller segment of the business continued to go from strength to strength during the last financial year delivering record months and reinforcing our position of "Number 1, because it works!". We published our "one millionth" private ad during the last financial year and are well on our way to our "two millionth"!.

Vehicle inventory has grown substantially and broke through the 200,000 mark in June 2010. This is a key milestone and reflects our growing market leading position.

carsales.com Ltd's display advertising division has undergone substantial changes over the last 18 months with numerous third party arrangements replaced with our own team. While the first half of FY10 saw sluggish growth as a result of a weak overall advertising market, the second half has been very strong. With car brands realising more and more that their audience – car buyers – are nearly all online and nearly all at carsales, we expect this strong growth to continue.

We launched a number of new and updated websites and other initiatives over the past 12 months and have put significant focus on our editorial, marine and motorcycle divisions. Our mobile version of the carsales website (www.carsales.mobi), has seen substantial growth and we will continue to invest strongly in this fast growing part of the Internet.

Financially, we've also had a great year with revenue up 28 percent and EBITDA up 48 percent. However, FY11 has already begun and the business is focussed on the numerous exciting initiatives to ensure this year too, will be a big year!.

Staff numbers have grown to over 300 and we've recently added a large number of workstations to our head office to cater for continued growth. We have a wonderful team here at carsales and I'm extremely proud of the positive attitude and excitement each member brings to the business every day. I'd like to publically thank my key team – the Strategy Group – but also every person at carsales for making it a great company. Also thank you to our wonderful customers who keep us on our toes, and who make delivering them great results such a passion.

Thank you once again from myself and the entire team at carsales.com Ltd. for your continued support.

Yours sincerely,

Greg Roebuck
Managing Director and CEO,
Hawthorn, 18 August 2010

“Vehicle inventory has grown substantially and broke through the 200,000 mark in June 2010. This is a key milestone and reflects our growing market leading position.”

Greg Roebuck


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Directors' Report

Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as the company) consisting of carsales.com Ltd and the entities it controlled at the end of, or during, the year ended 30 June 2010.

Directors

The following persons were directors of carsales.com Ltd during the whole of the financial year and up to the date of this report unless indicated otherwise:

Wal Pisciotta, Greg Roebuck, Jeffrey Browne, Ian Law, Pat O'Sullivan, Ric Collins, Adrian MacKenzie, Kim Anderson (appointed 16/06/2010 and continues in office), Graham Brooke (appointed 16/06/2010 and continues in office), Steven Kloss (Alternate)

Principal activities

During the year the principal continuing activities of the Group consisted of (a) internet automotive classified advertising and (b) sales/maintenance of software data services and website development supporting largely the automotive industry.

Dividends - carsales.com Ltd

Dividends paid to members during the financial year were as follows:	**2010 $'000**	2009 $'000
Final fully franked cash dividend for the year ended 30 June 2009 of 7.8 cents (2008 - franked 4.75 cents) per fully paid share paid on 24 August 2009.	**18,065**	10,922
Interim ordinary dividend for the year ended 30 June 2010 of 6.6 cents (2009 - 5.5 cents) per fully paid share paid on 16 April 2010.	**15,343**	12,677
	33,408	23,599

In addition to the above dividends, since the end of the financial year the directors have recommended the payment of a final ordinary dividend of $19,377,000 (8.3 cents per fully paid ordinary share) to be paid on 6th October 2010 out of retained profits at 30 June 2010.

Review of operations

During the year the group generated gross revenues of $123,614,000 (2009: $96,307,000). Profit after tax was $43,235,000 (2009: $30,675,000). Please also refer to the Chairman's letter and Managing Director's review of operations for further information on the operations of the Group.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2010 that has significantly affected, or may affect (a) the Goup's operations in future financial years (b) the results of those operations in future financial years, or (c) the Group's state of affairs in future financial years.

Likely developments and expected results of operations

In the opinion of the Directors, disclosure of information regarding likely developments in the operations of the Group and the expected results of those operations in subsequent financial years would prejudice the interests of the Group. Accordingly, this information has not been included in this report.

Environmental regulation

The Group is not subject to significant environmental regulation in respect of its activities.

Information on directors

Wal Pisciotta
(non-executive chairman)

Experience and expertise

Age 60. Wal has 40 years experience in supplying computer services to the automotive industry and is also the Chairman of Pentana Solutions Pty Ltd.

Wal holds a Bachelor of Science Degree in Business Administration from the University of Alabama (United States) and has been the Chairman of carsales.com Ltd since its inception.

Interests in shares and options

18,740,347 ordinary shares in carsales.com Ltd.
250,000 options over ordinary shares in carsales.com Ltd.

Richard Collins
(non-executive director)

Experience and expertise

Age 59. Richard has been a Director of carsales.com Ltd since 2000 and has over 25 years experience as Dealer Principal, currently holding Ford, Toyota and Subaru Franchises. Richard holds a Bachelor of Commerce Degree from Melbourne University.

Interests in shares and options

1,930,750 ordinary shares in carsales.com Ltd.
125,000 options over ordinary shares in carsales.com Ltd.

Greg Roebuck
(managing director)

Experience and expertise

Age 50. Greg was the original architect of carsales.com ltd has been on its Board since inception and Managing Director and CEO since May of 2002. Greg is a Fellow of the Australian Institute of Company Directors. He has over 25 years experience in providing technology solutions to the Australian Automotive Industry.

Greg studied computer science at RMIT (Melbourne). In July 2009 Greg won the Ernst & Young Entrepreneur of the Year Award for the Southern Region of Australia in Technology & emerging industries: Software, hardware, telecommunications, digital media and health sciences. He then went on to win the Ernst & Young entrepreneur of the year award for Australia in November 2009.

Interests in shares and options

7,274,055 ordinary shares in carsales.com Ltd.
1,300,000 options over ordinary shares in carsales.com Ltd.

Patrick O'Sullivan
(non-executive director)

Experience and expertise

Age 46. Patrick is the Chief Financial Officer of the PBL Media Group. Prior to this position he was the Chief Operating Officer of PBL, a position he had held since February 2006. Before joining PBL, Mr O'Sullivan was the Chief Financial Officer of Optus. Mr O'Sullivan is currently a member of The Institute of Chartered Accountants in Ireland and The Institute of Chartered Accountants in Australia, and is a graduate of the Harvard Business School's Advanced Management Programme.

Interests in shares and options

No ordinary shares held in carsales.com Ltd.
187,500 options over ordinary shares in carsales.com Ltd.*

Ian Law
(non-executive director)

Experience and expertise

Age 58. Ian is Chief Executive Officer of PBL Media and started at PBL in May 2006 where he occupied the role of CEO of ACP Magazines Ltd. Between 2002 and 2006 Mr Law was the Managing Director and Chief Executive Officer of West Australian Newspaper Holdings Limited.

Prior to joining West Australian Newspaper Holdings Limited Mr Law held a number of senior management roles with Rural Press Limited. Mr Law is a member of the Australian Institute of Company Directors.

Interests in shares and options

No ordinary shares held in carsales.com Ltd.
187,500 options over ordinary shares in carsales.com Ltd.*

Jeffrey Browne
(non-executive director)

Experience and expertise

Age 57. Jeffrey is the Managing Director of GTV 9 in Melbourne and is the Chairman of Holden Special Vehicles. Jeffrey is a former commercial lawyer, with extensive experience in the automotive industry. He has a degree in Arts from La Trobe University (Melbourne) and Law from Monash University (Melbourne).

Interests in shares and options

No ordinary shares held in carsales.com Ltd.
187,500 options over ordinary shares in carsales.com Ltd.*

Adrian MacKenzie
(non-executive director)

Experience and expertise

Age 39. Adrian is the Partner in Charge of CVC, responsible for Asia Pacific, Australia and New Zealand. Prior to CVC Adrian was with J Henry Schroder Wagg & Co Ltd (London and New York). Adrian holds a Degree in Technology and Business Studies from the University of Strathclyde (Scotland).

Interests in shares and options

No ordinary shares held in carsales.com Ltd.
187,500 options over ordinary shares in carsales.com Ltd.*

Kim Anderson
(non-executive director)

Experience and expertise

Age 51. Kim is the Chief Executive Officer of The Reading Room (thereadingroom.com), a community/social networking site for readers and is a Fellow of the Sydney University Senate and former Director of The Sax Institute. Kim has more than 25 years experience in various advertising and media executive positions within companies such as Southern Star Entertainment, PBL and NineMSN.

Interests in shares and options

No ordinary shares held in carsales.com Ltd.
No options held over ordinary shares in carsales.com Ltd.

Graham Brooke

(non-executive director)

Experience and expertise

Age 39. Graham is a Managing Director of CVC Australia. He joined CVC in 1999 from Arthur Andersen Corporate Finance where he advised on private equity and corporate acquisitions and divestments. Graham is a member of the Institute of Chartered Accountants in England and Wales and holds a degree in Classics from Oxford University.

Interests in shares and options

No ordinary shares held in carsales.com Ltd.
No options held over ordinary shares in carsales.com Ltd.*

Steven Kloss

(alternate non-executive director)

Experience and expertise

Age 41. Steven has more than 20 years experience in supplying computer services to the automotive industry and is currently Chief Executive Officer at Pentana Solutions Pty Ltd. Steven holds a Bachelor of Business from Monash University.

Interests in shares and options

2,715,000 ordinary shares in carsales.com Ltd.
37,500 options over ordinary shares in carsales.com Ltd.

Company secretary

Cameron McIntyre and Margaret Bettie were both appointed to the role of joint company secretary. Cameron is Chief Financial Officer and Margaret is General Counsel for carsales.com Ltd. Cameron is the former Finance Director of Sensis and has over 16 years experience in finance and administration. Cameron holds a Degree in Economics from La Trobe University (Melbourne), he is a Certified Practicing Accountant, an Associate Fellow of the Australian Institute of Management and a graduate of the Harvard Business School's General Management Program. Margaret was appointed on the 22 January 2010 and holds a Bachelor of Laws and a Bachelor of Arts from Melbourne University. Prior to Margaret's appointment Janet Gillam held this position.

* The Board of carsales.com Ltd has been advised by the PBL Media non-executive directors that they have received the share options, provided as remuneration for being on the Board of the company on behalf of ACP Magazines Pty Ltd and any shares received by exercising those options will be owned by ACP Magazines Pty Ltd.

Meetings of directors

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2010, and the numbers of meetings attended by each director were:

	Full meetings of directors		Meetings of committees			
			Audit and risk		Remuneration and nomination	
	A	B	A	B	A	B
W Pisciotta (Board Chairman, Chairman - remuneration and nomination)	12	12	**	**	2	2
G Roebuck	12	12	3	3	2	2
I Law	11	12	**	**	2	2
R Collins	11	12	3	3	2	2
P O'Sullivan (Chairman - audit and risk management)	10	12	3	3	**	**
J Browne	8	12	2	3	**	**
A MacKenzie	9	12	**	**	**	**
K Anderson	-	-	-	-	**	**
G Brooke	-	-	**	**	**	**

A = Number of meetings attended
B = Number of meetings held during the time the director held office or was a member of the committee during the year
**** = Not a member of the relevant committee**

Remuneration report

The remuneration report is set out under the following main headings:

Principles used to determine the nature and amount of remuneration
Details of remuneration
Service agreements
Share-based compensation
Additional information

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*

Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency
- capital management

In consultation with external remuneration consultants, the company has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

Alignment to shareholders' interests:

- has economic profit as a core component of plan design
- focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant return on assets as well as focusing the executive on key non-financial drivers of value
- attracts and retains high calibre executives

Alignment to program participants' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth
- provides a clear structure for earning rewards
- provides recognition for contribution

The framework provides a mix of fixed and variable pay, and a blend of short and long-term incentives. As executives gain seniority with the group, the balance of this mix shifts to a higher proportion of ''at risk'' rewards.

The Board has established a remuneration committee which provides advice on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for the executive director, other senior executives and non-executive directors.

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors.

Directors' fees

The current base remuneration was last approved by shareholders at the Annual General Meeting held on the 21st of October 2009.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum payable to be shared by all non-executive directors currently stands at $650,000 per annum. The Directors determine how these are to be shared by the Directors.

Executive pay

The executive pay and reward framework has four components:

- base pay and benefits
- short-term performance incentives
- long-term incentives through participation in the carsales.com Ltd Option Plan, and
- other remuneration such as superannuation.

Base pay and benefits

Structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. External remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. Base pay for executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

There are no guaranteed base pay increases included in any executives' contracts.

Benefits

Executives may structure their remuneration to include benefits such as car allowances.

Superannuation

Retirement benefits are provided via defined contributions to approved superannuation funds. Other retirement benefits may be provided directly by the Group if approved by shareholders.

Short-term incentives

Key executives have a target STI opportunity depending on the accountabilities of the role and impact on the organisation or business unit performance.

Each year, the Remuneration and Nomination Committee considers the appropriate targets and key performance indicators (KPIs) to link the STI plan and the level of payout if targets are met. This includes setting any maximum payout under the STI plan, and minimum levels of performance to trigger payment of STI.

For the year ended 30 June 2010, the KPIs linked to STI plans were based on group, individual business and personal objectives. The KPIs required performance in achieving sales targets and profit, as well as other key, strategic non-financial measures linked to drivers of performance in future reporting periods.

The Remuneration and Nomination Committee is responsible for assessing whether the KPIs are met and whether or not STIs will be paid.

The short-term bonus payments may be adjusted up or down in line with under or over achievement against the target performance levels. This is at the discretion of the Remuneration and Nomination Committee.

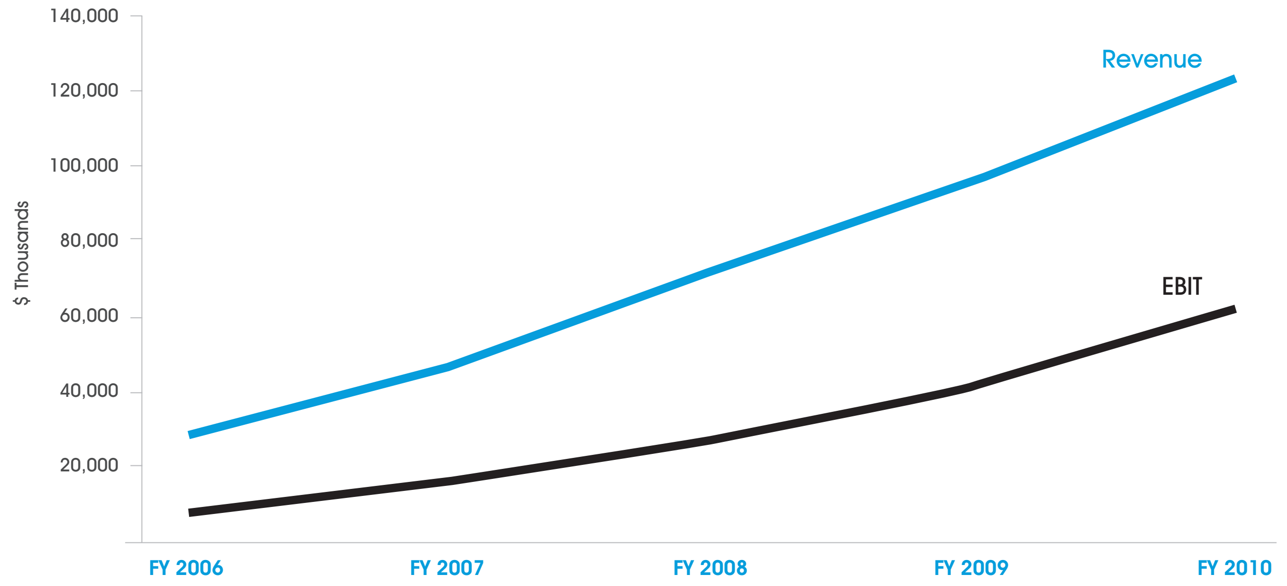
The review of STI targets and payments is conducted on an annual basis.

Long-term incentives

Long-term incentives are provided to certain employees via the carsales.com Ltd Option Plan, see share-based compensation for further information.

Group Performance

The graph below shows the Group's profitability (Revenue and EBIT) for the past five years



The Group's performance is also reflected in the movement in the Group's earnings per share (EPS) over time. The table below shows the Group's basic EPS historty for the past 5 years (including the current period).

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Basic earnings per share - cents	3.1	5.2	8.2	13.3	18.6

Details of Remuneration

Amounts of remuneration

Details of the remuneration of the Directors and the key management personnel of the Group (as defined in AASB 124 Related Party Disclosures) and specified executives of carsales.com Ltd and the carsales.com Ltd Group are set out in the following tables. The cash bonuses are dependent on the satisfaction of performance conditions as set out in the section headed "Short term incentives" above, all other elements of remuneration are not directly related to performance.

The key management personnel of the Group are the directors of carsales.com Ltd (see page 14 to 15 above) and those executives that report directly to the Managing Director being:

- Cameron McIntyre - Chief Financial Officer, Joint Company Secretary
- Grant Taylor - General Manager Non Automotive
- Damian Hardy - General Manager DataMotive & Research
- Shane Pettiona - Chief Operating Officer
- Anthony Saines - Advertising Director
- Ajay Bhatia - Chief Information Officer

Key management personnel of the Group

2010	Short-term employee benefits			Post-employment benefits	Long term benefits	Share based payments	
Non-executive directors	Cash salary and fees $	Cash bonus $	Non monetary benefits $	Super-annuation $	Long service leave $	Options $	Total $
Wal Pisciotta	96,367	-	-	-	-	4,220	100,587
Ric Collins	67,075	-	-	6,037	-	4,220	77,332
Ian Law**	-	-	-	-	-	3,165	3,165
Pat O'Sullivan**	-	-	-	-	-	3,165	3,165
Jeffrey Browne**	-	-	-	-	-	3,165	3,165
Adrian MacKenzie**	-	-	-	-	-	3,165	3,165
Steven Kloss (Alternate)	62,500	-	-	-	-	7,088	69,588
Kim Anderson	-	-	-	-	-	-	-
Graham Brooke**	-	-	-	-	-	-	-
Sub-total Non-executive directors	**225,942**	**-**	**-**	**6,037**	**-**	**28,188**	**260,167**
Executive directors							
Greg Roebuck^#	640,000	380,000	-	13,795	61,901	570,750	1,666,446
Other key management personnel and executives (Group)							
Cameron McIntyre^	298,689	97,445	-	15,215	2,031	56,507	469,887
Shane Pettiona^	266,055	92,295	-	23,945	26,376	56,507	465,178
Damian Hardy^	226,410	61,220	-	17,748	6,500	52,869	364,747
Grant Taylor^*	235,380	64,760	-	-	-	52,869	353,009
Anthony Saines	223,054	86,618	-	20,075	1,029	28,750	359,526
Ajay Bhatia	245,384	58,328	-	20,285	1,008	26,327	351,332
Total key management personnel compensation (Group)	**2,360,914**	**840,666**	**-**	**117,100**	**98,845**	**872,767**	**4,290,292**

 # The options payment includes options issued with a 1 year vesting period. It is expected that future options issued will revert to a 3 year vesting period. As further background, the Board required a review be conducted by Mercer on the appropriate remuneration structure of the Managing Director in an ASX listed environment. Given the time between listing and AGM was under two months, this review and subsequent recommendation to shareholders was unachievable. Therefore, it was decided to set up a 1 year vesting LTI and reset to a longer term LTI in FY11 once the findings of this report had been determined and an appropriate structure could be put in place, which is why the FY10 share based payment value is so high relative to FY09.

Key management personnel of the Group

2009	Short-term employee benefits			Post-employment benefits	Long term benefits	Share based payments	
Non-executive directors	Cash salary and fees $	Cash bonus $	Non monetary benefits $	Super-annuation $	Long service leave $	Options $	Total $
Wal Pisciotta	26,013	-	-	-	-	33,247	59,260
Ric Collins	16,600	-	-	1,494	-	33,247	51,341
Ian Law**	-	-	-	-	-	24,935	24,935
Pat O'Sullivan**	-	-	-	-	-	24,935	24,935
Jeffrey Browne**	-	-	-	-	-	24,935	24,935
Adrian MacKenzie**	-	-	-	-	-	24,935	24,935
Steven Kloss (Alternate)	-	-	-	-	-	23,224	23,224
Sub-total Non-executive directors	**42,613**	**-**	**-**	**1,494**	-	**189,458**	**233,565**
Executive directors							
Greg Roebuck^	583,901	340,000	-	31,472	52,857	76,982	1,085,212
Other key management personnel and executives (Group)							
Cameron McIntyre^	254,445	101,103	-	15,469	1,329	56,157	428,503
Shane Pettiona^	229,358	56,813	-	20,642	15,480	50,178	372,471
Damian Hardy^	192,899	62,936	-	17,361	7,047	20,342	300,585
Grant Taylor^*	201,148	72,125	-	-	-	20,342	293,615
Total key management personnel compensation (Group)	**1,504,364**	**632,977**	**-**	**86,438**	**76,713**	**413,459**	**2,713,951**

^ denotes one of the 5 highest paid executives of the Group, as required to be disclosed under the Corporations Act 2001.
* Grant Taylor's remuneration reflects those payments made by carsales.com Ltd to Pentana Solutions Pty Ltd. He is on long-term secondment to the company.
** The Board of carsales.com Ltd has been advised by the PBL Media non-executive directors that they have received the share options, provided as remuneration for being on the Board of the company on behalf of ACP Magazines Pty Ltd and any shares received by exercising those options will be owned by ACP Magazines Pty Ltd. The PBL Media non-executive directors are not paid by carsales.com Ltd nor do they receive options.

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

	Fixed remuneration		At risk - STI		At risk - LTI*	
Directors of carsales.com ltd	**2010**	2009	**2010**	2009	**2010**	2009
Wal Pisciotta	**96%**	44%	**-**	-	**4%**	56%
Ric Collins	**95%**	35%	**-**	-	**5%**	65%
Ian Law	**-**	-	**-**	-	**100%**	100%
Pat O'Sullivan	**-**	-	**-**	-	**100%**	100%
Jeffrey Browne	**-**	-	**-**	-	**100%**	100%
Adrian MacKenzie	**-**	-	**-**	-	**100%**	100%
Steven Kloss	**90%**	-	**-**	-	**10%**	100%
Greg Roebuck	**39%**	57%	**23%**	31%	**38%**	12%
Kim Anderson	**-**	-	**-**	-	**-**	-
Graham Brooke	**-**	-	**-**	-	**-**	-
Other key management personnel of Group						
Cameron McIntyre	**67%**	63%	**21%**	24%	**12%**	13%
Shane Pettiona	**62%**	67%	**20%**	15%	**18%**	18%
Damian Hardy	**67%**	70%	**17%**	21%	**16%**	9%
Grant Taylor	**67%**	69%	**18%**	25%	**15%**	7%
Anthony Saines	**68%**	97%	**24%**	-	**8%**	3%
Ajay Bhatia	**76%**	99%	**16%**	-	**8%**	1%

* Since the long-term incentives are provided exclusively by way of options, the percentages disclosed also reflect the value of remuneration consisting of options, based on the value of options expensed during the year. Negative amounts indicate expenses reversed during the year due to a failure to satisfy the vesting conditions.

Service agreements

There are no service agreements between the company and its Non Executive Directors. The company's constitution requires that Directors remuneration be determined at Annual General Meetings. There are no agreements to pay benefits to Non Executive Directors upon termination.

Remuneration and other terms of employment for the Executive Managing Director and Key Management Personnel are formalised in service agreements. Unless otherwise stated each of these agreements provide for the provision of base salary and in some circumstances the provision of other benefits such as commissions, cash bonuses, car allowances, provision of company cars and where eligible participation in the Company's employee option plan. None of the agreements provide for any payment of benefits upon termination of employment, other than for accrued employee benefits and statutory or contractual notice periods. Details of payments made under the agreements is shown earlier in this note.

All executives have on-going terms of agreement with the Group with the exception of Cameron McIntyre (end date 1 January 2012), Shane Pettiona (end date 30 October 2010), Damian Hardy (end date 1 November 2011), Anthony Saines (end date 1 November 2011) and Ajay Bhatia (end date 10 November 2011). Contracts can be terminated on the basis of performance, long term illness or otherwise by agreement.

Share-based compensation

Options

Options are granted under the carsales.com Ltd Employee Option Plan which was established via a prospectus lodged with ASIC in 2000. The Board of Directors determines who shall be invited to participate in the plan. Options under this plan are issued for no cash consideration. Options are issued subject to vesting rules and expiry periods. Options vest on fixed dates provided that employment has not been terminated. The exercise price of each option is fixed by the Board of Directors when the options are issued. Amounts received on the exercise of options is recognised as share capital. Options granted under the plan carry no dividend or voting rights.

The terms and conditions of each grant of options affecting remuneration in the current or a future reporting period are as follows:

Grant date	Date vested and exercisable	Expiry date	Exercise price	Value per option at grant date	% Vested	Performance acheived
August 2004	August 2006	August 2009	$0.35	$0.05	100	Yes
June 2006	November 2007	November 2010	$0.70	$0.05	100	Yes
October 2006	December 2006	November 2010	$0.70	$0.29	100	Yes
October 2006	December 2006	October 2010	$1.05	$0.17	100	Yes
December 2006	December 2006	December 2011	$1.05	$0.29	100	Yes
February 2007	November 2008	November 2011	$1.05	$0.40	100	Yes
July 2007	June 2009	June 2014	$1.75	$0.55	100	Yes
August 2007	May 2009	August 2012	$1.75	$0.55	100	Yes
October 2007	October 2010	October 2012	$2.15	$0.41	n/a	To be determined
October 2007	October 2008	October 2011	$2.15	$0.41	100	Yes
September 2008	September 2009	September 2012	$2.00	$0.16	100	Yes
September 2008	September 2009	September 2012	$2.15	$0.18	100	Yes
September 2008	September 2011	September 2013	$2.00	$0.21	n/a	To be determined
July 2009	July 2012	July 2014	$2.00	$0.36	n/a	To be determined
December 2009	June 2010	June 2014	$3.89	$0.98	100	Yes
March 2010	October 2012	October 2014	$3.89	$2.01	n/a	To be determined

When vested and exercisable, each option is convertible into one ordinary share upon payment of the exercise fee by the option holder, provided that the option holder complies with the rules of the carsales.com Ltd Option Plan.

Options not exercised expire where (a) the expiry date applicable to the option is reached, (b) the employee ceases to be employed by carsales.com Ltd or their employment is terminated, or (c) where there has been a special circumstance, then within 90 days after that special circumstance has occurred or as specified by the Board.

Details of options granted over ordinary shares in the company provided as remuneration to each director of carsales.com Ltd and each of the key management personnel of the parent entity and the Group are set out below.

Further information on the options is set out in Note 30 to the financial statements.

	Number of options granted during the year 2010	Value of options at grant date 2010	Number of options vested during the year 2010
Directors of carsales.com Ltd			
W Pisciotta	-	-	125,000
R Collins	-	-	125,000
I Law**	-	-	93,750
G Roebuck	500,000	488,000	-
J Browne**	-	-	93,750
P O'Sullivan**	-	-	93,750
A MacKenzie**	-	-	93,750
S Kloss	-	-	52,500
Other key management personnel and executives of the Group			
C McIntyre	131,250	263,156	-
S Pettiona	131,250	263,156	-
D Hardy	112,500	225,563	-
G Taylor	112,500	225,563	-
A Saines	112,500	225,563	-
A Bhatia	112,500	225,563	-

** The Board of carsales.com Ltd has been advised by the PBL Media non-executive directors that they have received the share options, provided as remuneration for being on the Board of the company on behalf of ACP Magazines Pty Ltd and any shares received by exercising those options will be owned by ACP Magazines Pty Ltd.

Shares provided on exercise of remuneration options

Details of ordinary shares in the company provided as a result of the exercise of remuneration options to each director of carsales.com Ltd and other key management personnel of the Group are set out below.

	Date of exercise of options	Number of ordinary shares issued on exercise of options during the year 2010	Value at exercise date* 2010
Directors of carsales.com Ltd			
R Collins	July 2009	125,000	-
G Roebuck	August 2009	500,000	510,000
S Kloss	September 2009	90,000	187,950
Other key management personnel and executives of the Group			
C McIntyre	August 2009	125,000	31,250
S Pettiona	July 2009	100,000	25,000

* The value at the exercise date of options that were granted as part of remuneration and were exercised during the year has been determined as the intrinsic value of the options at that date.

The amounts paid per ordinary share by each director and other key management personnel on the exercise of options at the date of exercise were as follows:

Exercise date	Amount paid per share
July 2009	$2.15
July 2009	$1.75
August 2009	$1.75
August 2009	$1.05
August 2009	$0.70
September 2009	$2.15
September 2009	$1.05

No amounts are unpaid on any shares issued on the exercise of options.

Additional information

Details of remuneration: Bonuses and share-based compensation benefits

For each cash bonus and grant of options, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonuses is payable in future years. The vesting periods for options are detailed above. No options will vest if the conditions are not satisfied, hence the minimum value of the option yet to vest is nil. The value of the options yet to vest has been determined as the amount of the grant date fair value of the options that is yet to be expensed.

	Bonus		Share-based compensation benefits (options)					
	Paid %	Forfeited %	Financial year granted	Vested %	Forfeited %	Financial years in which options may vest	Minimum total value of grant yet to vest $	Maximum total value of grant yet to vest $
W Pisciotta	-	-	2009	100	-		-	-
R Collins	-	-	2009	100	-		-	-
I Law**	-	-	2009	100	-		-	-
G Roebuck	119	-	2008	-	-	2011	-	18,356
			2009	-	-	2012	-	33,450
			2010	-	-	2010*	-	-
J Browne**	-	-	2009	100	-		-	-
P O'Sullivan**	-	-	2009	100	-		-	-
A MacKenzie**	-	-	2009	100	-		-	-
D Hardy	68	32	2008	-	-	2011	-	4,589
			2009			2012	-	10,035
			2009			2013	-	19,432
			2010			2013	-	203,734
G Taylor	65	35	2008	-	-	2011	-	4,589
			2009	-	-	2012	-	10,035
			2009	-	-	2013	-	19,432
			2010	-	-	2013	-	203,734
C McIntyre	89	11	2008	-	-	2011	-	4,589
			2009	-	-	2012	-	10,035
			2009	-	-	2013	-	19,432
			2010	-	-	2013	-	237,690
S Pettiona	92	8	2008	-	-	2011	-	4,589
			2009	-	-	2012	-	10,035
			2009	-	-	2013	-	19,432
			2010	-	-	2013	-	237,690
A Saines	79	21	2009	-	-	2012	-	8,362
			2010	-	-	2013	-	203,734
A Bhatia	95	5	2009	-	-	2012	-	5,436
			2010	-	-	2013	-	203,734

* Vesting is contingent upon Board approval.
** The Board of carsales.com Ltd has been advised by the PBL Media non-executive directors that they have received the share options, provided as remuneration for being on the Board of the company on behalf of ACP Magazines Pty Ltd and any shares received by exercising those options will be owned by ACP Magazines Pty Ltd.

Shares under option

Unissued ordinary shares of carsales.com Ltd under option at the date of this report are as follows:

Date options granted	Expiry date	Issue price of shares	Number under option
Feb-2007	Nov-2011	$1.05	75,000
Jul-2007	Jun-2014	$1.75	110,000
Oct-2007	Oct-2011	$2.15	500,000
Oct-2007	Oct-2012	$2.15	1,172,500
Sep-2008	Sep-2012	$2.00	625,000
Sep-2008	Sep-2013	$2.00	1,420,000
Jul-2009	Jul-2014	$2.00	320,000
Dec-2009	Jun-2014	$3.89	500,000
Mar-2010	Oct-2014	$3.89	1,125,000
			5,847,500

No option holder has any right under the options to participate in any other share issue of the company.
No options have been issued post 30 June 2010.

Shares issued on the exercise of options

The following ordinary shares of carsales.com Ltd were issued during the year ended 30 June 2010 on the exercise of options granted under the carsales.com Ltd Employee Option Plan. No amounts are unpaid on any of the shares.

Date options granted	Issue price of shares	Number of shares issued
Jul-2009	$1.75	100,000
Jul-2009	$2.15	125,000
Aug-2009	$0.20	61,666
Aug-2009	$0.70	150,000
Aug-2009	$1.05	550,000
Aug-2009	$1.75	125,000
Sep-2009	$1.05	37,500
Sep-2009	$1.75	10,000
Sep-2009	$2.15	52,500
Oct-2009	$0.20	10,000
Nov-2009	$1.75	5,000
Nov-2009	$2.15	75,000
Dec-2009	$0.70	45,000
Dec-2009	$1.75	50,000
Jan-2010	$0.70	20,000
Jan-2010	$1.75	30,000
Mar-2010	$0.70	75,000
Mar-2010	$1.05	75,000
Mar-2010	$1.75	30,000
Apr-2010	$1.75	5,000
May-2010	$0.70	20,000
		1,651,666

Insurance of officers

During the financial year, carsales.com Ltd paid a D&O insurance premium of $26,819 to insure the directors, officers and secretaries of the Group. The company also paid $203,675 for Prospectus Liability insurance.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Prospectus Liability Insurance covers losses (such as damages and defence costs) in respect of claims (such as proceedings) against both the company and its directors and officers, in respect of statements and information in the prospectus and related presentations. Prospectus Liability Insurance Policies are placed for a period of up to 7 years.

Indemnification of officers

All current directors are indemnified under a deed of indemnity, insurance and access in accordance with the Board Charter.

Non-audit services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out below.

The board of directors has considered the position and, in accordance with advice received from the Audit and Risk Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the audit and risk management committee to ensure they do not impact the impartiality and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110: Code of Ethics for Professional Accountants.

During the year the following fees were paid or payable for non-audit services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated 2010 $	2009 $
Other assurance services PricewaterhouseCoopers Australian firm:		
Due diligence services	**110,940**	200,548
Controls assurance services	**34,181**	7,897
Computer software services	**4,667**	7,943
Total remuneration for other assurance services	**149,788**	216,388
Taxation services PricewaterhouseCoopers Australian firm:		
Tax compliance services	**46,440**	53,000
Tax consulting and tax advice on acquisitions	**41,877**	157,030
Total remuneration for taxation services	**88,317**	210,030
Other Advisory services PricewaterhouseCoopers Australian firm:		
Related practices of PricewaterhouseCoopers Australian firm	**28,313**	-
Total remuneration for other services	**28,313**	-
Total remuneration for non-audit services	**266,418**	426,418

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 28.

Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the ''rounding off'' of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.
This report is made in accordance with a resolution of directors.

Wal Pisciotta
Director

Greg Roebuck
Director

Hawthorn
18 August 2010

PRICEWATERHOUSECOOPERS

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Auditor's Independence Declaration

As lead auditor for the audit of carsales.com Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of carsales.com Limited and the entities it controlled during the period.

John Yeoman
Partner
PricewaterhouseCoopers

Melbourne
18 August 2010

Liability limited by a scheme approved under Professional Standards Legislation

"Business continued to go from strength to strength during the last financial year delivering record months and reinforcing our position of Number 1, because it works!"

Greg Roebuck

"Financially, we've also had a great year with revenue up 28 percent. However, FY11 has already begun and the business is focussed on the numerous exciting initiatives to ensure this year too, will be a big year!"

Greg Roebuck

Corporate Governance
Statement

Corporate Governance Statement

carsales.com Ltd (the company) and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The Board continues to review the framework and practices to ensure they meet the interests of shareholders. The company and its controlled entities together are referred to as the Group in this statement.

A description of the Group's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year. They comply with the August 2007 ASX Principles of Good Corporate Governance and Best Practice Recommendations, unless otherwise stated.

The Board of Directors

The Directors are responsible for protecting the rights and interests of the company, its shareholders and other stakeholders, including creditors and employees, and are accountable to them for the overall management of the company.

Responsibilities

The responsibilities of the Board include:

- protecting and enhancing the value of the assets of the company;
- setting strategies, directions and monitoring and reviewing against these strategic objectives;
- reviewing and ratifying internal controls, codes of conduct, legal and risk management compliance;
- reviewing the company's accounts;
- approval and review of the annual operating budget;
- evaluating performance and determining the remuneration of the Managing Director and senior management. For further details, refer to the remuneration report;
- ensuring the significant risks facing the company have been identified and adequate control monitoring and reporting mechanisms are in place
- approval of transactions relating to acquisitions, divestments and capital expenditure above delegated authority limits;
- approval of financial and dividend policy; and
- appointment of the Managing Director.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the Managing Director and senior executives as set out in the Group's delegations policy. These delegations are reviewed on an annual basis.

Structure of the Board

The Board operates in accordance with the broad principles set out in its charter which is available from the corporate governance information section of the company website at http://shareholders.carsales.com.au.

Board composition

The charter states:

- The number of directors must not be less than 3. There are presently 9 directors of the company.
- With the exception of the Managing Director, a director may not hold office for more than three years or beyond the third annual general meeting following his appointment (whichever is the longer period) without submitting himself for re election.
- The Board should at all times comprise a minimum of 1 independent director, to ensure that the company is run in its own best interests and, accordingly, in the best interests of shareholders.
- The composition of, and terms of reference for, the Board is to be reviewed annually by the Board and the Chairman is to assess the effectiveness of the Board.

Directors' independence

In considering whether a director is independent the Board has regard to ASX Principles 2.1. When determining the status of an independent director, the board should consider whether the director:

- not be a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company
- within the last three years, not have been employed in an executive capacity by the company or any other Group member, or been a director after ceasing to hold any such employment
- within the last three years not have been a principal of a material professional adviser or a material consultant to the company or any other Group member, or an employee materially associated with the service provided
- not be a material supplier or customer of the company or any other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
- must have no material contractual relationship with the company or a controlled entity other than as a director of the Group

The Board currently consists of 2 independent directors. This does not comply with the recommendations contained in ASX Principal 2.1 which recommends a majority of independent directors on the Board, due to the major shareholdings in carsales.com Ltd by ACP Magazines Pty Ltd, Walter Pisciotta and Gregory Roebuck.

Board members

Details of the members of the Board, their experience, expertise, qualifications, term of office, relationships affecting their independence and their independent status are set out in the directors' report under the heading ''Information on directors''. At the date of signing the directors' report, there was 1 executive director and 8 non-executive directors.

Chairman

The Chairman is responsible for leading the Board, ensuring directors are properly briefed on all matters relevant to their roles and responsibilities, facilitating Board discussions and managing the Board's relationship with the company's senior executives. As Mr Pisciotta is not an independent director, carsales does not comply with recommendation 2.2 of the ASX guidelines, however his appointment brings 40 years of automotive industry experience to the carsales Board.

Term of office

The company's Constitution specifies that all non-executive directors must retire from office no later than the third annual general meeting (AGM) following their last election. Where eligible, a director may stand for re-election.

Commitment

The number of meetings of the company's Board of Directors and of each Board committee held during the year ended 30 June 2010, and the number of meetings attended by each director is disclosed on page 15.

Conflict of interests

Entities connected with the directors that had business dealings with the Group during the year, are described in note 22 to the financial statements. In accordance with the Board Charter, the directors concerned declared their interests in those dealings to the company and took no part in decisions relating to them or the preceding discussions. In addition, those directors did not receive any papers from the Group pertaining to those dealings.

Independent professional advice

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the company's expense, with the approval of the Chairman or by resolution of the Board.

Performance evaluation

The performance evaluation of the Board has regard for the extent to which the directors have met their responsibilities in terms of the Board Charter.

Board Committees

The Board has established two committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the Board are the Remuneration and Nomination Committee and the Audit and Risk Management Committee. The committees structure and membership is reviewed on an annual basis.

Each committee has its own written charter setting out its roles and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis and are available on the company website. All matters determined by committees are submitted to the full Board as recommendations for Board decisions.

Committee Chairs provide updates which are tabled at the subsequent Board meeting. Additional requirements for specific reporting by the committees to the Board are addressed in the charter of the individual committees.

Audit and Risk Management Committee

The Audit and Risk Management Committee consists of the following non-executive directors:

R Collins (Independent) - Chairman (effective 1 September 2010)
P O'Sullivan (Chairman)
J Browne
K Anderson - appointed 16 June 2010 (Independent)

Details of these directors' qualifications and attendance at Audit and Risk Management Committee meetings are set out in the directors' report on pages 14 - 15.

All members of the Audit and Risk Management Committee are financially literate and have an appropriate understanding of the industries in which the Group operates. The full recommendations of 4.2 of the ASX guidelines are not met as the Chairman is not an independent director and the Committee is not made up of a majority of independent directors. The Chairman, Mr O'Sullivan, as an accountant, provides financial expertise and prior experience of financial and accounting matters, and with the appointment of Ms K Anderson, the Committee now contains 2 independent directors. From the 1st of September 2010 Mr Collins who is an independent director will take the position of Chairman.

The Audit and Risk Management Committee operates in accordance with a charter which is available on the company website. The main responsibilities of the committee are:

External reporting:

- reviewing the appropriateness of the accounting policies and principles, any changes to those policies and principles and the methods of applying them to ensure that they are in accordance with the company's stated financial reporting framework;
- overseeing the preparation of financial reports and reviewing the results of external audits of these reports;
- assessing significant estimates and judgments in financial reports by examining the processes used to make material estimates and judgments and making enquiries of the external auditors as to the basis for their conclusions about the reasonableness of management's estimates;
- reviewing management's processes for ensuring and monitoring compliance with laws, regulations and other requirements relating to the preparation of accounts and external reporting by the company of financial and non-financial information;
- assessing (before publication) whether external reporting is consistent with committee members' information and knowledge;
- reviewing the completeness and accuracy of the company's main corporate governance practices;
- assessing information from external auditors that affects the quality of financial reports;
- requesting that the external auditor provide an independent judgment about the appropriateness, not just the acceptability, of the accounting principles used and the clarity of financial disclosure practices used by the company;
- assessing the management of non-financial information in documents to ensure the information does not conflict inappropriately with financial statements;
- recommending to the Board whether the financial statements should be signed based on the committee's assessment of them; and
- examining and evaluating the effectiveness of the internal control system with management and external auditors;

Internal controls and risk assessment:

- assessing existing controls in place for the management of unusual transactions or transactions that may carry more than an accepted level of risk;
- meeting periodically with key management, internal and external auditors and compliance staff to understand the company's control environment;
- receiving reports concerning all suspected and actual frauds, thefts and breaches of the law;
- assessing and ensuring that there are internal processes for determining and managing key areas, such as

important judgements and accounting estimates;

- reviewing the effectiveness of the company risk management system and ensuring that material risks are identified;
- ensuring management processes are in place, including the formulation and subsequent updating of appropriate company policies;
- reviewing the effectiveness of the company's environment and health and safety risk management systems;
- evaluating the adequacy and effectiveness of administrative, operating and accounting controls of the company;
- reviewing actual and potential material risk exposures;
- monitoring the implementation of company risk management plans; and
- reviewing insurance and other risk transfer arrangements, and considering whether the appropriate arrangements are in place.

In fulfilling its responsibilities, the Audit and Risk Management Committee:

- receives regular reports from management and the external auditors
- reviews the processes the Managing Director and CFO have in place to support their certifications to the Board
- reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved
- meets separately with the external auditors at least twice a year without the presence of management, and
- provides external auditors with a clear line of direct communication at any time to either the Chair of the Audit and Risk Management Committee or the Chair of the Board.

The Audit and Risk Management Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

External auditors

The company and Audit and Risk Management Committee's policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. PricewaterhouseCoopers was appointed as the external auditor in 2000. It is PricewaterhouseCoopers' policy to rotate audit engagement partners on listed companies at least every five years, and in accordance with that policy a new audit engagement partner was introduced for the year ended 30 June 2008.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is in note 23 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the Audit and Risk Management Committee.

The external auditor will attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

Corporate reporting

The Managing Director and CFO have made the following certifications to the Board:

- that the company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the company and Group and are in accordance with relevant accounting standards
- that the above statement is founded on a sound system of risk management and internal compliance and control, which implements the policies adopted by the Board and that the company's risk management and internal compliance and control is operating efficiently and effectively in all material respects in relation to financial reporting risks.

Remuneration and Nomination Committee

ASX Principle 2 of best practice in corporate governance suggests that a Nomination Committee be formed of at least 3 members with a majority of independent directors. The full recommendations of 2.1 of the ASX guidelines are not met as the Chairman is not independent and the majority of the committee is not made up of independent directors. Although not independent Mr Wal Pisciotta brings 40 years of automotive experience and the major shareholding by ACP Magazines Pty Ltd limits the number of independent directors.

The Remuneration and Nomination Committee consists of the following non-executive directors (one of which is independent):

W Pisciotta (Chairman)
I Law
R Collins (Independent)
G Roebuck

Details of these directors' attendance at Remuneration and Nomination Committee meetings are set out in the Directors' Report on page 15.

The Remuneration and Nomination Committee operates in accordance with its charter which is available on the company website. The Remuneration and Nomination Committee reviews and makes recommendations to the Board on remuneration, recruitment, retention and termination policies and procedures applicable to senior executives and directors. In addition the committee will facilitate an efficient mechanism for examination of the selection and appointment practices of the company.

When a new director is to be appointed the Remuneration and Nomination Committee reviews the range of skills, experience and expertise on the Board, identifies its needs and prepares a short-list of candidates with appropriate skills and experience. Where necessary, advice is sought from independent search consultants.

The full Board then appoints the most suitable candidate who must stand for election at the next annual general meeting of the company.

The specific matters the committee may consider include the review of:

- senior executives and directors' remuneration and incentives, including the link between company and individual performance;
- current industry best practice;
- different methods for remunerating senior executives and directors;
- existing or proposed share option schemes or other incentive schemes;
- superannuation arrangements;
- retirement, termination benefits and payments for senior executives;
- professional indemnity and liability insurance policies;
- considering the appropriate size and composition of the Board;
- consider and implement a plan for identifying, assessing and enhancing director competencies;
- developing a process for evaluation of the performance of the Board, its committees and directors;
- reviewing the skills, experience and expertise represented on the Board and determining whether those skills meet the required skills identified;
- recommending changes to the membership of the Board;
- making recommendations to the Board on candidates it considers appropriate for appointment;
- reviewing the retiring non executive director's performance and making recommendations to the Board as to whether the Board should support the nomination of a retiring non executive director; and
- reviewing the company's succession planning to maintain an appropriate balance of skills, experience and expertise on the Board.

Code of Conduct

The company has developed a statement of values and a Code of Conduct (the Code) which has been fully endorsed by the Board and applies to all directors and employees. The Code is designed to ensure that it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group's integrity and to take into account legal obligations and reasonable expectations of the company's stakeholders.

In summary, the Code requires that at all times all company personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and company policies.

The purchase and sale of company securities by directors and employees is governed by the company's share trading policy which restricts the period in which the shares can be traded. Any transactions undertaken must be notified to the Company Secretary in advance and approved by the Managing Director or the Chairman.

The Code and the company's trading policy is discussed with each new employee as part of their induction training.

The Directors are satisfied that the Group has complied with its policies on ethical standards, including trading in securities.

A copy of the Code and the trading policy are available on the company's website.

Continuous disclosure and shareholder communication

The Company Secretary has been nominated as the person responsible for communications with the Australian Stock Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the shareholders, the media and the public.

All information disclosed to the ASX is posted on the company's website as soon as it is disclosed to the ASX. When analysts are briefed on aspects of the group's operations, the material used in the presentation is released to the ASX and posted on the company's website. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed and, if so, this information is also immediately released to the market.

All shareholders receive a copy of the company's annual and half-yearly reports. In addition, the company seeks to provide opportunities for shareholders to participate through electronic means.

The website also enables users to provide feedback and has an option for shareholders to register their email address for direct email updates on company matters.

Financial Report

Contents

This financial report covers the consolidated financial statements for the consolidated entity consisting of carsales.com Ltd and its subsidiaries. The financial report is presented in the Australian currency.

carsales.com Ltd is a company limited by shares, incorporated and domiciled in Australia.
Its registered office and principal place of business is:

carsales.com Ltd
Level 1, 109 Burwood Road
Hawthorn Vic 3122

A description of the nature of the consolidated entity's operations and its principal activities is included in the Chairman's letter to shareholders on page 7, the Managing Director's review of operations on page 9 and in the directors' report on pages 13-27, each of which are not part of this financial report.

The financial report was authorised for issue by the directors on 18 August 2010. The directors have the power to amend and reissue the financial report.

For queries in relation to our reporting please call 03-9093-8600.

Statement of comprehensive income

For the year ended 30 June 2010

	Notes	Consolidated 2010 $'000	2009 $'000
Revenue from continuing operations			
Sale of goods	5	**123,130**	95,921
Other revenue from ordinary activities	5	**484**	386
Revenue from continuing operations		**123,614**	96,307
Other income	6	**-**	26
Expenses			
Sales and marketing expenses		**(36,761)**	(33,596)
Operations and administration		**(11,719)**	(9,597)
Service development and maintenance		**(9,042)**	(8,411)
Other expenses		**(3,367)**	(2,745)
Finance costs	7	**(672)**	(1,052)
Profit before income tax		**62,053**	40,932
Income tax expense	8	**(18,818)**	(10,257)
Profit from continuing operations		**43,235**	30,675
Other comprehensive income			
Exchange differences on translation of foreign operations		**(13)**	14
Total comprehensive income for the year		**43,222**	30,689
Profit is attributable to:			
Owners of carsales.com Ltd		**43,235**	30,675
Total comprehensive income for the year is attributable to:			
Owners of carsales.com Ltd		**43,222**	30,689
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the parent entity:		**Cents**	Cents
Basic earnings per share		18.6	13.3
Diluted earnings per share		18.5	13.0
Earnings per share for profit attributable to the ordinary equity holders of the parent entity:			
Basic earnings per share		18.6	13.3
Diluted earnings per share		18.5	13.0

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Balance Sheet

As at 30 June 2010

	Notes	Consolidated 2010 $'000	2009 $'000
ASSETS			
Current assets			
Cash and cash equivalents	9	**13,605**	15,729
Receivables	10	**16,839**	12,377
Total current assets		**30,444**	28,106
Non-current assets			
Property, plant and equipment	11	**2,379**	2,536
Deferred tax assets	12	**1,495**	1,137
Intangible assets	13	**79,750**	79,421
Total non-current assets		**83,624**	83,094
Total assets		**114,068**	111,200
LIABILITIES			
Current liabilities			
Payables	14	**9,705**	7,363
Current tax liabilities		**9,321**	3,805
Provisions	15	**2,408**	1,886
Other current liabilities	16	**3,325**	3,003
Total current liabilities		**24,759**	16,057
Non-current liabilities			
Borrowings	17	**-**	18,779
Provisions	18	**335**	359
Total non-current liabilities		**335**	19,138
Total liabilities		**25,094**	35,195
Net assets		**88,974**	76,005
EQUITY			
Contributed equity	19	**64,384**	62,293
Reserves	20(a)	**2,990**	1,939
Retained profits	20(b)	**21,600**	11,773
Total equity		**88,974**	76,005

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the year ended 30 June 2010

	Notes	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2008		**61,774**	**1,282**	**4,698**	**67,754**
Profit for the year		-	**-**	**30,674**	**30,674**
Exchange differences on translation of foreign operations	20	-	14	-	14
Total comprehensive income for the year		**-**	**14**	**30,674**	30,688
Transactions with owners in their capacity as owners:					
Contributions of equity upon exercise of employee share options		519	-	-	519
Dividends provided for or paid	21	-	-	(23,599)	(23,599)
Increase in share-based payment reserve	20	-	643	-	643
Balance at 30 June 2009		**62,293**	**1,939**	**11,773**	**76,005**

	Notes	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2009		**62,293**	**1,939**	**11,773**	**76,005**
Profit for the year		-	**-**	**43,235**	**43,235**
Exchange differences on translation of foreign operations	20	-	(13)	-	(13)
Total comprehensive income for the year		**-**	**(13)**	**43,235**	**43,222**
Transactions with owners in their capacity as owners:					
Contributions of equity upon exercise of employee share options		2,091	-	-	2,091
Dividends provided for or paid	21	-	-	(33,408)	(33,408)
Increase in share-based payment reserve	20	-	1,064	-	1,064
Balance at 30 June 2010		**64,384**	**2,990**	**21,600**	**88,974**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Cash flow statement

For the year ended 30 June 2010

		Consolidated	
	Notes	**2010 $'000**	2009 $'000
Cash flows from operating activities			
Receipts from customers (incl GST)		**131,482**	104,553
Payments to suppliers and employees (incl GST)		**(67,189)**	(61,122)
		64,293	43,431
Interest received		**484**	386
Interest paid		**(672)**	(780)
Income taxes paid		**(13,660)**	(10,295)
Net cash inflow from operating activities	28	**50,445**	32,742
Cash flows from investing activities			
Purchase of subsidiary, net of cash acquired		**-**	384
Payments for property, plant and equipment		**(839)**	(1,389)
Payments for domain names		**(365)**	(32)
Payments for computer software		**(1,270)**	(712)
Proceeds from disposal of assets		**-**	30
Net cash outflow from investing activities		**(2,474)**	(1,719)
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities		**3,316**	518
Costs associated with share issue		**(1,225)**	-
Proceeds from borrowings		**1,000**	1,000
Repayment of borrowings		**(19,767)**	(1,000)
Finance lease payments		**(11)**	(7)
Dividends paid to company's shareholders	21	**(33,408)**	(23,599)
Net cash outflow from financing activities		**(50,095)**	(23,088)
Net increase (decrease) in cash and cash equivalents		**(2,124)**	7,935
Cash and cash equivalents at the beginning of the financial year		**15,729**	7,794
Cash and cash equivalents at end of year	9	**13,605**	15,729

The above cash flow statement should be read in conjunction with the accompanying notes.

Notes to the consolidated financial statements

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of carsales.com Ltd and its subsidiaries.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

Compliance with International Financial Reporting Standards

The financial report of carsales.com Ltd complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Financial statement presentation

The company has applied the revised AASB 101 Presentation of Financial Statements which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the company had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of carsales.com Ltd (''company'' or ''parent entity'') as at 30 June 2010 and the results of all subsidiaries for the year then ended. carsales.com Ltd and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(h)).

Intercompany transactions, balances and unrealised gains on transactions between companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the company.

Investments in subsidiaries are accounted for at cost in the individual financial statements of carsales.com Ltd.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the strategy group that makes strategic decisions.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is carsales.com Ltd's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) Group companies
The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each consolidated income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings are taken to other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Where the Group has utilised the services of a sales agency to sell advertising services on behalf of the Group, the sale is recorded at a value inclusive of sales commissions paid to the sales agency. Revenue is recognised for the major business activities as follows:

(i) Advertising services
A sale is recorded when a customer's advertisement has been displayed or when a referral has been generated leading to an enforceable claim by the Group.

(ii) Data and other services
A sale is recorded when data and other services have been provided to a customer leading to an enforceable claim by the Group.

(iii) Interest income
Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(iv) Dividends
Dividends are recognised as revenue when the right to receive payment is established.

(f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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

Tax consolidation legislation
carsales.com Ltd and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, carsales.com Ltd, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, carsales.com Ltd also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the company. Details about the tax funding agreement are disclosed in note 8.

(g) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases (note 11). Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statements over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the company as lessee are classified as operating leases (note 24). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statements on a straight-line basis over the period of the lease.

(h) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the company. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the company recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the company's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a discount on purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Change in accounting policy

A revised AASB 3 Business Combinations became operative on 1 July 2009. While the revised standard continues to apply the acquisition method to business combinations, there have been some significant changes.

All purchase consideration is now recorded at fair value at the acquisition date. Contingent payments classified as debt are subsequently remeasured through profit or loss. Under the company's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition.

Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net identifiable assets.

If the company recognises previously acquired deferred tax assets after the initial acquisition accounting is completed there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the company's net profit after tax.

(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested bi-annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. Trade receivables are due for settlement generally within 30 days following the provision of advertising or data services.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the income statement within 'operations and administration'. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

(l) Investments and other financial assets

The Group classifies its investments in the following categories: financial assets at fair value, loans and receivables and held-to-maturity investments. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held-for-trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are classified as held-for-trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in receivables (note 10) in the balance sheet. Refer to note 1(k) for details of the impairment policy for trade receivables.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(m) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

• Vehicles	3-5 years
• Furniture, fittings and equipment	3-8 years
• Computer hardware & peripherals	3-4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(n) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment bi-annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each primary operating segment (note 4).

(ii) IT development: Software, domain names and database

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Redbook database costs capitalised include direct payroll and payroll related costs of employees' time spent on developing the database. These intangible assets have finite lives and are subject to amortisation.

The useful lives for these assets are as follows:

- Software 3 years
- Domain Names 5 years
- Database 10 years

(iii) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved services) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and appropriate proportion overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point of which the asset is ready for use, on a straight line basis over its useful life, which varies from 3 to 5 years.

(o) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(p) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not incremental costs relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

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

(q) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(r) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' service up to the end of the reporting period and are measured at the amount expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short term employee benefit obligations are presented as payables.

(ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the preiod in which the employees render the related services is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and period of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bond with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement benefit obligations

All employees of the Group are entitled to benefits on retirement, disability or death from the Group's superannuation plan. The Group has a defined contribution plan. The defined contribution plan receives fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions. The employees of the parent entity are all members of the defined contribution section of the Group's plan.

Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Past service costs are recognised immediately in profit or loss, unless the changes to the superannuation fund are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

(iv) Share-based payments

Share-based compensation benefits are provided to employees via the carsales.com Ltd Option Plan. Information relating to this scheme is set out in note 30.

The fair value of options granted under the carsales.com Ltd Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the nontradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

(v) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(s) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(t) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

(u) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(v) Rounding of amounts

The company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the ''rounding off'' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(w) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective for annual reporting periods beginning on or after 1 January 2011)
In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other goverment-related entities. The company will apply the amended standard from 1 January 2011. It is not expected to have any effect on the company's related party disclosures.

(x) Parent entity financial information

The financial information for the parent entity, carsales.com Ltd, disclosed in note 31 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries

Investments in subsidiaries are accounted for at cost in the financial statements of carsales.com Ltd. Dividends received from subsidiaries are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments. Investments in subsidiaries are tested for impairment whenever changes in events or circumstances indicate that the carrying amount may not be recoverable. Such events may include receipt of dividends, refer note 1(i) for details of impairment accounting policies.

(ii) Tax consolidation legislation

carsales.com Ltd and its wholly owned Australian controlled entities have implemented the tax consolidation legislation. Refer note 1(f).

(y) Goods and Services Tax (GST)

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

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

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

2. Financial risk management

The Group's activities expose it to a variety of financial risks: credit risk, interest rate risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed.

The Group is not subject to significant financial risk in respect of price, currency, or foreign exchange.

(a) Credit risk

Credit risk of the Group arises predominantly from outstanding receivables from customers.

The Group's credit risk on its receivables is recognised on the balance sheet at the carrying amount of those receivable assets, net of any provisions for doubtful debts. There are no significant concentrations of receivables within the Group. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not considered to be material.

Details of impaired and past due receivables are disclosed in note 10.

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted by carsales.com Ltd.

(b) Interest rate risk

The consolidated entity's exposure to the risk of changes in market interest rates relates primarily to the cash at bank and the cash advance facility. The interest rate applicable at year end on the cash at bank was 3.7%, while the interest on the cash advance facility was 5.7%. Interest charged on inter-company loans between wholly owned subsidiaries is 0%.

As at reporting date, the Group had $0 (2009 - $18,767,000) variable rate borrowings at a weighted average interest rate of 6.0% (2009 - 5.9%).

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Financing arrangements

The Company had access to the following undrawn borrowing facilities at the end of the reporting period:

	Consolidated	
	2010 $'000	2009 $'000
Floating rate		
- Expiring within one year (cash advance facility)	**-**	-
- Expiring beyond one year (cash advance facility)	**23,500**	5,000
	23,500	5,000

Subject to the continuance of satisfactory credit ratings, the cash advance facilities may be drawn at any time.

Maturities of financial liabilities

The following table sets out the Group's exposure to liquidity risk. The amounts disclosed in the table are the contractual undiscounted cash flows.

Contractual maturities of financial liabilities	0 - 12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Total contractual cash flows $'000	Carrying Amount (assets)/ liabilities $'000
Group - at 30 June 2010					
Non-derivatives					
Non-interest bearing payables	3,408	-	-	3,408	3,408
Variable rate borrowings	-	-	-	-	-
Fixed rate borrowings	-	-	-	-	-
Total non-derivatives	**3,408**	**-**	**-**	**3,408**	**3,408**
Group - at 30 June 2009					
Non-derivatives					
Non-interest bearing payables	2,099	-	-	2,099	2,099
Variable rate borrowings	-	-	18,767	18,767	18,767
Fixed rate borrowings	12	-	-	12	12
Total non-derivatives	**2,111**	**-**	**18,767**	**20,878**	**20,878**

(d) Net fair value of financial assets and liabilities

The net fair value of cash and cash equivalents and non interest bearing monetary financial assets and non interest bearing financial liabilities of the consolidated entity approximates their carrying amounts. There are no off balance sheet financial instruments in place.

(e) Fair value estimation

Summarised sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk, foreign exchange risk and other price risk.

Consolidated	Carrying amount $'000	Interest rate risk -100 bps Profit $'000	Interest rate risk -100 bps Other Equity $'000	Interest rate risk +100 bps Profit $'000	Interest rate risk +100 bps Other Equity $'000	Foreign exchange risk -100 bps Profit $'000	Foreign exchange risk -100 bps Other Equity $'000	Foreign exchange risk +100 bps Profit $'000	Foreign exchange risk +100 bps Other Equity $'000
30 June 2010									
Financial assets									
Cash and cash equivalents	13,605	(146)	-	146	-	-	-	-	-
Accounts receivable	16,839	-	-	-	-	-	-	-	-
Financial liabilities									
Trade payables	9,705	-	-	-	-	-	(2)	-	2
Borrowings	-	-	-	-	-	-	-	-	-
Total increase/ (decrease)		**(146)**	**-**	**146**	**-**	**-**	**(2)**	**-**	**2**
30 June 2009									
Financial assets									
Cash and cash equivalents	15,729	(103)	-	103	-	-	-	-	-
Accounts receivable	12,377	-	-	-	-	-	-	-	-
Financial liabilities									
Trade payables	7,363	-	-	-	-	-	(2)	-	2
Borrowings	18,779	186	-	(186)	-	-	-	-	-
Total increase/ (decrease)		**83**	**-**	**(83)**	**-**	**-**	**(2)**	**-**	**2**

3. Critical accounting estimates and judgements

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

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of goodwill

The company tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(n). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 13 for details of these assumptions and the potential impact of changes to the assumptions.

(ii) Employee options

Fair value of employee options: refer to details of assumptions in note 30.

4. Segment information

(a) Description of segments

The Group principally operates in two business segments, namely Online Advertising Services and Data and Research Services. All activities are principally conducted in the Australian Market.

Online Advertising Services

Carsales online advertising offerings can be broken into two key product sets being classified advertising and display advertising services.

Classified advertising is currently the major product offering of the company and encompasses both private sellers and dealer customers. Classified advertising typically involves the owner of a specific item, such as a 2004 Red brand x car with 23,242 kilometres or a brand new Blue brand x motorbike with sidecar etc.; advertising their item for sale via a particular medium, which in the case of carsales, is through its online websites.

Display advertising, typically involves corporate customers such as automotive manufacturers/importers, finance and insurance companies etc., placing advertisements on a carsales website. These advertisements typically display the product or service offerings of the corporate advertiser such as a special offer on new utes by manufacturer x, or save 10% on insurance this month only etc.

Data and Research Services

The carsales divisions of ERG, Redbook, Livemarket and Datamotive provide various solutions to a range of customers including manufacturers/importers, dealers, industry bodies, finance and insurance companies offering products including software, analysis, research and reporting, valuation services, website development and hosting as well as photography services.

(b) Primary reporting format - business segments

2010	Online Advertising $'000	Data and Research $'000	Consolidated $'000
Segment revenue [note (i)]	107,660	15,470	123,130
Total segment revenue	**107,660**	**15,470**	**123,130**
EBITDA [note (ii)]	**58,296**	**6,246**	**64,542**
Depreciation and amortisation			(2,301)
Net interest expense			(188)
Profit before income tax			**62,053**
Income tax expense			(18,818)
Profit for the year			**43,235**
Segment assets [note (iii)]	**74,086**	**19,125**	**93,211**
Deferred tax asset			1,495
Unallocated assets			19,362
Total assets			**114,068**

2009	Online Advertising $'000	Data and Research $'000	Consolidated $'000
Segment revenue [note (i)]	82,916	13,005	95,921
Total segment revenue	**82,916**	**13,005**	**95,921**
EBITDA [note (ii)]	**38,631**	**5,069**	**43,700**
Depreciation and amortisation			(2,102)
Net interest expense			(666)
Profit before income tax			**40,932**
Income tax expense			(10,257)
Profit for the year			**30,675**
Segment assets [note (iii)]	**72,329**	**16,421**	**88,750**
Deferred tax asset			1,137
Unallocated assets			21,313
Total assets			**111,200**

(c) Notes to, and forming part of, the segment information

(i) Segment revenues
Segment revenues are derived from sales to external customers as set out in the table above. The nature of the segment revenues are as described in 4(a) above.

(ii) Segment EBITDA
The consolidated entity's key operating decision maker assesses the performance of the segments based on a measure of EBITDA. Interest revenue and expense, depreciation and amortisation are not reported to the chief operating decision maker by segment. These items are assessed at a consolidated entity level.

(iii) Segment assets
Segment assets include goodwill and trade receivables. Unallocated assets include property, plant and equipment, intangibles and other assets. All unallocated assets are assessed by the chief operating decision maker at a consolidated level.

(iv) Liabilities
Liabilities are not reported to the chief operating decision maker by segment. All liabilities are assessed at a consolidated entity level.

5. Revenue

From continuing operations

	Consolidated	
	2010 $'000	2009 $'000
Sales revenue		
Sale of services	**123,130**	95,921
Other revenue		
Interest	**484**	386
	123,614	96,307

6. Other income

	Consolidated	
	2010 $'000	2009 $'000
Net gain on disposal of property, plant and equipment	**-**	26
	-	26

7. Expenses

Profit before income tax includes the following specific expenses:

	Consolidated	
	2010 $'000	2009 $'000
Total employee benefits	**25,609**	21,499
Foreign exchange (gain)/losses	**33**	(161)
Interest and finance charges paid/payable	**672**	1,052
Minimum lease payments	**2,151**	1,839
Research and development	**2,251**	1,224
Defined contribution superannuation expense	**1,784**	1,540
Net loss (profit) on disposal of property, plant and equipment	**2**	(26)
Depreciation and amortisation expense	**2,301**	2,102

8. Income tax expense

(a) Income tax expense

	Consolidated	
	2010 $'000	2009 $'000
Current tax	**19,205**	12,537
Deferred tax	**(358)**	(225)
Adjustments for current tax of prior periods	**(29)**	(2,055)
	18,818	10,257
Deferred income tax (revenue) expense included in income tax expense comprises:		
(Increase) in deferred tax assests (notes 12)	**(358)**	(225)
	(358)	(225)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

Profit from continuing operations before income tax expense	**62,053**	40,932
Tax at the Australian tax rate of 30% (2009 - 30%)	**18,616**	12,280
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	**319**	193
Sundry items	**(88)**	(161)
Adjustments for current tax of prior periods	**(29)**	(2,055)
Total income tax expense	**18,818**	10,257

(c) Tax consolidation legislation

carsales.com Ltd and its wholly-owned Australian controlled entities implemented the tax consolidation legislation from 1 July 2006. The accounting policy in relation to this legislation is set out in note 1(f).

9. Current assets - Cash and cash equivalents

	Consolidated	
	2010 $'000	2009 $'000
Cash in hand	**5**	4
Bank balances	**13,600**	15,725
	13,605	15,729

(a) Risk exposure
The Company's exposure to interest rate risk is discussed in note 2. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

(b) Cash at bank and in hand
Cash in hand is non interest bearing. Bank balances attract interest at an average rate of 3.8% (2009: 3.0%).

10. Current assets - Receivables

Net trade receivables

	Consolidated	
	2010 $'000	2009 $'000
Trade receivables	**17,180**	12,723
Provision for doubtful receivables (note (a))	**(1,016)**	(607)
	16,164	12,116
Prepaid general	**664**	240
	664	240
Other receivables	**11**	21
	16,839	12,377

Receivables from related parties are disclosed under note 25.

(a) Impaired trade receivables
As at 30 June 2010 current trade receivables of the Group with a nominal value of $1,016,000 (2009 - $607,000) were impaired. The amount of the provision was $1,016,000 (2009 - $607,000). The individually impaired receivables mainly relate to customers, which are in unexpectedly difficult economic situations.

The ageing of these receivables is as follows:

	Consolidated	
	2010 $'000	2009 $'000
1 to 3 months	**246**	127
3 to 6 months	**438**	154
Over 6 months	**332**	326
	1,016	607
Movements in the provision for impairment of receivables are as follows:		
At 1 July	**607**	576
Provision for impairment recognised during the year	**694**	309
Receivables written off during the year as uncollectible	**(285)**	(278)
	1,016	607

The creation and release of the provision for impaired receivables has been included in 'other expenses' in the income statement. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

(b) Past due but not impaired

As of 30 June 2010, trade receivables of $3,947,000 (2009 - $2,747,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The ageing of these trade receivables is as follows:

	Consolidated	
	2010 $'000	2009 $'000
Up to 3 months	**3,683**	2,747
3 to 6 months	**264**	-
	3,947	2,747

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

(c) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Group. Interest is not charged and collateral is not normally obtained.

(d) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to note 2 for more information on the risk management policy of the company and the credit quality of the entity's trade receivables.

11. Non-current assets - Property, plant and equipment

	Plant and equipment $'000	Motor vehicles $'000	Leasehold improvements $'000	Total $'000
At 1 July 2008				
Cost	2,573	84	781	3,438
Accumulated depreciation	(1,235)	(48)	(88)	(1,371)
Net book amount	**1,338**	**36**	**693**	**2,067**
Year ended 30 June 2009				
Opening net book amount	1,338	36	693	2,067
Additions	125	-	1,274	1,399
Asset disposal	(62)	(4)	-	(66)
Depreciation charge	(475)	(7)	(382)	(864)
Closing net book amount	**926**	**25**	**1,585**	**2,536**
At 30 June 2009				
Cost	2,694	62	2,056	4,812
Accumulated depreciation	(1,768)	(37)	(471)	(2,276)
Net book amount	**926**	**25**	**1,585**	**2,536**
Year ended 30 June 2010				
Opening net book amount	926	25	1,585	2,536
Additions	779	11	50	840
Asset disposal	(2)	-	-	(2)
Depreciation charge	(576)	(7)	(412)	(995)
Closing net book amount	**1,127**	**29**	**1,223**	**2,379**
At 30 June 2010				
Cost	3,423	74	2,107	5,604
Accumulated depreciation	(2,296)	(45)	(884)	(3,225)
Net book amount	**1,127**	**29**	**1,223**	**2,379**

(a) Leased assets
Furniture, fittings and equipment includes the following amounts where the Group is a lessee under a finance lease:

	Consolidated	
	2010 $'000	2009 $'000
Leased equipment		
Cost	-	62
Accumulated depreciation	-	(37)
Net book amount	**-**	25

(b) Non-current assets pledged as security
Refer to note 17 for information on non-current assets pledged as security by the Company.

12. Non-current assets - Deferred tax assets

The balance comprises temporary differences attributable to:

	Consolidated	
	2010 $'000	2009 $'000
Doubtful debts	**264**	146
Employee benefits	**822**	673
Expense provisions and accruals	**409**	318
	1,495	1,137
Movements:		
Opening balance at 1 July	**1,137**	912
Credited/(charged) to the consolidated income statement (note 8)	**358**	225
Closing balance at 30 June	**1,495**	1,137
Deferred tax assets to be recovered within 12 months	**1,127**	843
Deferred tax assets to be recovered after more than 12 months	**368**	294
	1,495	1,137

	Employee benefits $'000	Other $'000	Total $'000
Movements - Consolidated			
At 1 July 2008	718	194	912
(Charged)/credited to the consolidated income statement	(45)	270	225
At 30th June 2009	673	464	1,137
Movements - consolidated			
At 30 June 2009	673	464	1,137
(Charged)/credited to the consolidated income statement	149	209	358
At 30th June 2010	822	673	1,495

13. Non-current assets - Intangible assets

	Goodwill $'000	Domain names and other $'000	Computer software* $'000	Intangible asset: Database $'000	Total $'000
At 1 July 2008					
Cost	76,373	703	2,370	1,163	80,609
Accumulated amortisation and impairment	-	-	(692)	-	(692)
Net book amount	**76,373**	**703**	**1,678**	**1,163**	**79,917**
Year ended 30 June 2009					
Opening net book amount	76,373	703	1,678	1,163	79,917
Additions	-	30	710	2	742
Amortisation charge **	-	(290)	(742)	(206)	(1,238)
Closing net book amount	**76,373**	**443**	**1,646**	**959**	**79,421**
At 30 June 2009					
Cost	76,373	733	3,080	1,165	81,351
Accumulated amortisation and impairment	-	(290)	(1,434)	(206)	(1,930)
Net book amount	**76,373**	**443**	**1,646**	**959**	**79,421**

	Goodwill $'000	Domain names and other $'000	Computer software* $'000	Intangible asset: Database $'000	Total $'000
Year ended 30 June 2010					
Opening net book amount	76,373	443	1,646	959	79,421
Development costs recognised as an asset	-	-	331	-	331
Additions	-	365	939	-	1,304
Amortisation charge **	-	(177)	(1,004)	(125)	(1,306)
Closing net book amount	**76,373**	**631**	**1,912**	**834**	**79,750**
At 30 June 2010					
Cost	76,373	1,098	4,350	1,165	82,986
Accumulated amortisation and impairment	-	(467)	(2,438)	(331)	(3,236)
Net book amount	**76,373**	**631**	**1,912**	**834**	**79,750**

* Software includes capitalised development costs being an internally generated intangible asset.
** Amortisation is included in other expenses in the income statement.

(a) Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment. A segment-level summary of the goodwill allocation is presented below.

	Australia $'000	Total $'000
2010		
Online Advertising	61,223	61,223
Data and Research	15,150	15,150
	76,373	**76,373**
2009		
Online Advertising	61,223	61,223
Data and Research	15,150	15,150
	76,373	**76,373**

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long term average growth rate for the business in which the CGU operates.

(b) Key assumptions used for value-in-use calculations

	Growth rate**		Discount rate***	
CGU	2010 %	2009 %	2010 %	2009 %
Online advertising	**2.5**	2.5	**11.6**	9.0
Data and Research	**2.5**	2.5	**11.6**	9.0

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on approved budgets.

** Weighted average growth rate used to extrapolate cash flows beyond the budget period
*** In performing the value-in-use calculations for each CGU, the company has applied pre-tax discount rates to discount the forecast future attributable post tax cash flows.

These assumptions have been used for the analysis of each CGU within the business segment. The weighted average growth rates used are consistent with forecasts included in industry reports. The discount rates used reflect specific risks relating to the relevant segments in which they operate.

No impairment charge has been recognised in the current financial year. Management do not consider that a reasonable change in any of the key assumptions would lead to impairment.

(c) Impact of possible changes in key assumptions

There are no reasonable changes to key assumptions that will lead to the impairment of the CGU's goodwill.

14. Current liabilities - Payables

	Consolidated	
	2010 $'000	2009 $'000
Trade payables	**3,408**	2,099
Accrued expenses	**6,177**	5,068
Other payables	**120**	196
	9,705	7,363

Details of relaled party payables are disclosed under note 25.

15. Current liabilities - Provisions

	Consolidated	
	2010 $'000	2009 $'000
Employee benefits	**2,408**	1,886

16. Current liabilities - Other current liabilities

	Consolidated	
	2010 $'000	2009 $'000
Deferred advertising services revenue	**3,325**	3,003

17. Non-current liabilities - Borrowings

	Consolidated	
Secured	2010 $'000	2009 $'000
Hire Purchase Liabilities (note 24)	**-**	12
Cash advance facility	**-**	18,767
Total secured non-current interest bearing borrowings	**-**	18,779
Total non-current interest bearing borrowings	**-**	18,779

The cash advance facility of the company is secured by first mortgage over all assets and undertakings of carsales.com Ltd.

(a) Fair value

The carrying amounts and fair values of borrowings at balance date are:

Group	At 30 June 2010 Carrying amount $'000	At 30 June 2010 Fair value $'000	At 30 June 2010 Carrying amount $'000	At 30 June 2010 Fair value $'000
On-balance sheet				
Non-traded financial liabilities				
Cash advance facility	-	-	18,767	18,767
Lease liabilities	-	-	12	12
	-	-	18,779	18,779

(b) Risk exposures

Information about the entity's exposure to interest rate and foreign currency changes is provided in note 2.

18. Non-current liabilities - Provisions

	Consolidated 2010 $'000	Consolidated 2009 $'000
Employee benefits	**335**	359

19. Contributed equity

(a) Share capital

	Consolidated 2010 Shares	Consolidated 2009 Shares	Consolidated 2010 $'000	Consolidated 2009 $'000
Ordinary shares				
Fully paid	**232,490,800**	230,489,134	**64,384**	62,293
	232,490,800	230,489,134	**64,384**	62,293

(b) Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	$'000
1 July 2008	Opening balance	229,854,134		61,775
August 2008	Exercise of employee options	75,000	$1.05	78
November 2008	Exercise of employee options	10,000	$0.20	2
March 2009	Exercise of employee options	75,000	$1.05	79
March 2009	Exercise of employee options	75,000	$1.05	79
April 2009	Exercise of employee options	400,000	$0.70	280
30 June 2009	Balance	**230,489,134**		**62,293**

Date	Details	Number of shares	Issue price	$'000
1 July 2009	Opening balance	230,489,134		62,293
July 2009	Exercise of employee options	100,000	$1.75	175
July 2009	Exercise of employee options	125,000	$2.15	269
August 2009	Exercise of employee options	61,666	$0.20	12
August 2009	Exercise of employee options	150,000	$0.70	105
August 2009	Exercise of employee options	550,000	$1.05	578
August 2009	Exercise of employee options	125,000	$1.75	218
September 2009	Exercise of employee options	37,500	$1.05	39
September 2009	Exercise of employee options	10,000	$1.75	17
September 2009	Exercise of employee options	52,500	$2.15	113
September 2009	Issue of ordinary shares	350,000	$3.50	1,225
October 2009	Exercise of employee options	10,000	$0.20	2
November 2009	Exercise of employee options	5,000	$1.75	9
November 2009	Exercise of employee options	75,000	$2.15	161
December 2009	Exercise of employee options	45,000	$0.70	31
December 2009	Exercise of employee options	50,000	$1.75	88
January 2010	Exercise of employee options	20,000	$0.70	14
January 2010	Exercise of employee options	30,000	$1.75	53
March 2010	Exercise of employee options	75,000	$0.70	53
March 2010	Exercise of employee options	75,000	$1.05	79
March 2010	Exercise of employee options	30,000	$1.75	52
April 2010	Exercise of employee options	5,000	$1.75	9
May 2010	Exercise of employee options	20,000	$0.70	14
	Less: Transaction costs arising on share issue			(1,225)
30 June 2010	Balance	**232,490,800**		**64,384**

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

(d) Employee share scheme

Information relating to the employee share scheme, including details of shares issued under the scheme, is set out in note 30.

(e) Options

Information relating to the carsales.com Ltd Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 30.

(f) Capital risk management

The company's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistently with others in the industry, the Group monitors its capital on an on-going basis.

The company's capital position at 30 June 2010 and 30 June 2009 are as follows:

	Consolidated	
	2010 $'000	2009 $'000
Total payables and borrowings	**9,705**	26,143
Less: cash and cash equivalents	**(30,444)**	(28,106)
Net cash	**(20,739)**	(1,963)
Total equity	**88,974**	76,005

20. Reserves and retained profits

(a) Reserves

	Consolidated	
	2010 $'000	2009 $'000
Share-based payment reserve	**2,978**	1,914
Foreign currency translation reserve	**12**	25
	2,990	1,939
Movements		
Share-based payments reserve		
Balance 1 July	**1,914**	1,271
Option expense	**1,064**	643
Balance 30 June	**2,978**	1,914
Movements		
Foreign currency translation reserve		
Balance 1 July	**25**	11
Currency translation differences arising during the year:	**(13)**	14
Balance 30 June	**12**	25

(b) Retained earnings

Movements in retained profits were as follows:

	Consolidated	
	2010 $'000	2009 $'000
Balance 1 July	**11,773**	4,697
Net profit for the year	**43,235**	30,675
Dividends	**(33,408)**	(23,599)
Balance 30 June	**21,600**	11,773

(c) Nature and purpose of reserves

(i) Share-based payment reserve

The share-based payment reserve is used to recognise the fair value of options issued but not exercised.

(ii) Foreign currency translation reserve
Exchange differences arising on translation of the foreign operations are taken to the foreign currency translation reserve, as described in note 1(d) and accumulated within a separate reserve within equity. The reserve is recognised in profit and loss when the net investment is disposed of.

21. Dividends

(a) Ordinary shares

	Parent Entity	
	2010 $'000	2009 $'000
Final ordinary dividend for the year ended 30 June 2009 of 7.8 cents (2008 4.75 cents) per fully paid share paid on 24 August 2009		
Fully franked (2009 - fully franked) based on tax paid @30%	**18,065**	10,922
Interim ordinary dividend for the year ended 30 June 2010 of 6.6 cents (2009 - 5.5 cents) per fully paid share paid on 16 April 2010		
Fully franked (2009 - fully franked) based on tax paid @30%	**15,343**	12,677
Total dividends provided for or paid	**33,408**	23,599
Paid in cash	**33,408**	23,599

(b) Dividends not recognised at year end

In addition to the above dividends, since year end the directors have recommended the payment of a final dividend of 8.3 cents per fully paid ordinary share, (2009 - 7.8 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 6 October 2010 out of retained profits at 30 June 2010, but not recognised as a liability at year end, is	**19,377**	18,065

	Consolidated	
	2010 $'000	2009 $'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2009 - 30%)	**2,364**	3,020

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

(a) franking credits that will arise from the payment of the amount of the provision for income tax
(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and
(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

22. Key management personnel disclosures

(a) Directors

The following persons were directors of carsales.com Ltd during the financial year:

(i) Chairman - non-executive

W Pisciotta

(ii) Executive director

G Roebuck

(iii) Non-executive directors

R Collins
I Law
P O'Sullivan
J Browne
A MacKenzie
S Kloss (Alternate)
K Anderson (appointed 16/06/2010 and continues in office)
G Brooke (appointed 16/06/2010 and continues in office)

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the company, directly or indirectly, during the financial year:

Name	Position	Employer
C McIntyre	Chief Financial Officer, Joint Company Secretary	carsales.com Ltd
S Pettiona	Chief Operating Officer	carsales.com Ltd
D Hardy	General Manager DataMotive & Research	carsales.com Ltd
G Taylor	General Manager Non Automotive	Pentana Solutions Pty Ltd
A Saines	Advertising Director	carsales.com Ltd
A Bhatia	Chief Information Officer	carsales.com Ltd

(c) Key management personnel compensation

	Consolidated	
	2010 $	2009 $
Short-term employee benefits	**3,201,580**	2,137,341
Post-employment benefits	**117,100**	86,438
Share-based payments	**872,767**	413,459
Long term employment benefits	**98,845**	76,713
	4,290,292	2,713,951

Detailed Remuneration Disclosures are provided in the remuneration report on pages 16 to 24.

(i) Options holdings

The numbers of options over ordinary shares in the company held during the financial year by each director of carsales.com Ltd and other key management personnel of the company, including their personally related parties, are set out below.

2010	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exerciseable	Unvested
Name							
Directors of carsales.com Ltd							
W Pisciotta	250,000	-	-	-	250,000	250,000	-
R Collins	250,000	-	(125,000)	-	125,000	125,000	-
G Roebuck	1,300,000	500,000	(500,000)	-	1,300,000	-	1,300,000
P O'Sullivan*	187,500	-	-	-	187,500	187,500	-
J Browne*	187,500	-	-	-	187,500	187,500	-
I Law*	187,500	-	-	-	187,500	187,500	-
A MacKenzie*	187,500	-	-	-	187,500	187,500	-
S Kloss (Alternate)	127,500	-	(90,000)	-	37,500	-	37,500
Other key management personnel of the Group							
D Hardy	300,000	112,500	-		412,500	-	412,500
G Taylor	300,000	112,500	-		412,500	-	412,500
C McIntyre	425,000	131,250	(125,000)		431,250	-	431,250
S Pettiona	400,000	131,250	(100,000)		431,250	-	431,250
A Saines	100,000	112,500	-		212,500	-	212,500
A Bhatia	65,000	112,500	-		177,500	-	177,500

2009	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exerciseable	Unvested
Name							
Directors of carsales.com Ltd							
W Pisciotta	125,000	125,000	-	-	250,000	125,000	125,000
R Collins	125,000	125,000	-	-	250,000	125,000	125,000
G Roebuck	1,300,000	400,000	(400,000)	-	1,300,000	500,000	800,000
P O'Sullivan*	93,750	93,750	-	-	187,500	93,750	93,750
J Browne*	93,750	93,750	-	-	187,500	93,750	93,750
I Law*	93,750	93,750	-	-	187,500	93,750	93,750
A MacKenzie*	93,750	93,750	-	-	187,500	93,750	93,750
S Kloss (Alternate)	75,000	52,500	-	-	127,500	90,000	37,500
Other key management personnel of the Group							
D Hardy	175,000	200,000	(75,000)	-	300,000	-	300,000
G Taylor	175,000	200,000	(75,000)	-	300,000	-	300,000
C McIntyre	225,000	200,000	-	-	425,000	125,000	300,000
S Pettiona	200,000	200,000	-	-	400,000	100,000	300,000
A Saines	-	100,000	-	-	100,000	-	100,000
A Bhatia	-	65,000			65,000	-	65,000

*** The Board of carsales.com Ltd has been advised by the PBL Media non-executive directors that they have received the share options, provided as remuneration for being on the Board of the company on behalf of ACP Magazines Pty Ltd and any shares received by exercising those options will be owned by ACP Magazines Pty Ltd.**

(ii) Share holdings

The numbers of shares in the company held during the financial year by each director of carsales.com Ltd and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2010	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Name				
Directors of carsales.com Ltd				
Ordinary shares				
W Pisciotta	37,107,137	-	(18,366,790)	18,740,347
R Collins	3,636,500	125,000	(1,830,750)	1,930,750
G Roebuck	10,414,055	500,000	(3,640,000)	7,274,055
S Kloss (Alternate)	5,191,666	90,000	(2,566,666)	2,715,000
Other key management personnel of the Group				
Ordinary shares				
D Hardy	400,000	-	(232,620)	167,380
C McIntyre	15,000	125,000	27,000	167,000
G Taylor	8,516,555	-	(4,258,278)	4,258,277
S Pettiona	1,485,714	100,000	(340,000)	1,245,714
A Saines	-	-	6,000	6,000
A Bhatia	-	-	6,000	6,000

2009	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Name				
Directors of carsales.com Ltd				
Ordinary shares				
W Pisciotta	37,107,137	-	-	37,107,137
R Collins	3,586,500	-	50,000	3,636,500
G Roebuck	10,014,055	400,000	-	10,414,055
S Kloss (Alternate)	5,160,000	-	31,666	5,191,666
Other key management personnel of the Group				
Ordinary shares				
D Hardy	325,000	75,000	-	400,000
C McIntyre	-	-	15,000	15,000
G Taylor	8,441,555	75,000	-	8,516,555
S Pettiona	1,485,714	-	-	1,485,714

(d) Loans to key management personnel

No loans were made to directors of carsales.com Ltd and other key management personnel of the Group, including their personally related parties at any time during the financial year.

(e) Other transactions with key management personnel

(i) Directors of carsales.com Ltd

The following directors: W Pisciotta and G Roebuck are shareholders in Pentana Solutions Pty Ltd. W Pisciotta is also a director of Pentana (G Roebuck resigned as a director prior to the carsales.com Ltd IPO on the 10th of September 2009), which entered into a relationship agreement with carsales.com Ltd in 2010 for the supply of data and services. Under the contract, Pentana supplies data for the exclusive use of carsales.com Ltd in return for a fixed annual payment, plus a percentage of revenues generated through Pentana Solutions. The term of the contract is 5 years from March 2010.

The following director: R Collins is associated with automotive dealerships which utilised the Group's services under terms and conditions no more favourable than dealing with other customers at arm's length in the same circumstances.

The following Directors: I Law, P O'Sullivan, J Browne, A MacKenzie and G Brooke hold positions of influence in PBL Media, which entered into a series of contracts with the Group in October 2005. The contracts require that ACP Magazines Ltd provide a range of services (including advertising sales through its ACP Magazines subsidiary, administrative services and provision of property, plant and equipment) to the Group in return for fixed fees and commissions. The contracts also require that the Group provide certain services to ACP Magazines Ltd in return for fixed fees.

The following Directors: I Law, P O'Sullivan, J Browne, A MacKenzie and G Brooke hold positions of influence in PBL Media, which has a 50% ownership interest in ninemsn Pty Ltd (9msn). 9msn provides services to the Group including online distribution and marketing, internet hosting and advertising sales in return for commissions and fees.

The transactions relating to the above parties are disclosed under note 25.

23. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated	
	2010 $	**2009 $**
(a) PricewaterhouseCoopers Australia		
PricewaterhouseCoopers Australian firm		
Audit and review of financial reports and other audit work under the Corporations Act 2001	**179,000**	158,420
Controls and assurance services	**34,181**	7,897
Due diligence services	**110,940**	200,548
Total remuneration for audit and other assurance services	**324,121**	366,865
Taxation services		
Tax compliance services, including review of company income tax returns	**46,440**	53,000
International tax consulting and tax advice on mergers and acquisitions	**41,877**	157,030
Total remuneration for taxation services	**88,317**	210,030
Other services		
Computer software services	**4,667**	7,943
Total remuneration of PricewaterhouseCoopers Australia	**417,105**	584,838

	Consolidated	
	2010 **$**	**2009** **$**
(b) Related practices of PricewaterhouseCoopers Australia		
Audit and other assurance services		
Other assurance services		
Legal and other services	**28,313**	-
Total remuneration for audit and other assurance services	**28,313**	-
(c) Non-PricewaterhouseCoopers audit firms		
Audit and review of financial statements	**8,793**	6,418
Total auditors' remuneration	**454,211**	591,256

It is the Company's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the company are important. These assignments are principally tax advice and due diligence reporting on acquisitions, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the company's policy to seek competitive tenders for all major consulting projects.

24. Commitments

(i) Non-cancellable operating leases

The Group leases offices under non-cancellable operating leases expiring within 5 years. Upon renewal date, the company has the option to renew the lease for a further 5 years at terms which are negotiable.

The Group also leases various motor cars under non cancellable operating lease.

	Consolidated	
	2010 **$'000**	**2009** **$'000**
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**1,907**	1,753
Later than one year but not later than five years	**2,878**	4,253
	4,785	6,006

(ii) Hire Purchase Agreements

The Group does not lease plant and equipment (2009 - $62,000) under hire purchase agreements.

Commitments in relation to finance leases are payable as follows:		
Within one year	**-**	12
Later than one year but not later than five years	**-**	-
Minimum lease payments	**-**	12
Future finance charges	**-**	-
Total lease liabilities	**-**	12
Representing lease liabilities:		
Current	**-**	12
Non-current (note 17)	**-**	-
	-	12

The weighted average interest rate implicit in the hire purchase agreements is 0% (2009 - 6%).

25. Related party transactions

(a) Subsidiaries

Interests in subsidiaries are set out in note 26.

(b) Transactions with other related parties

The following transactions occurred with related parties, the nature of which are described in note 22(e)(i):

	Consolidated	
	2010 $	2009 $
Sales of goods and services		
Sale of services to related parties	**1,045,585**	3,730,050
Purchases of goods and services		
Purchases of services from related parties	**6,635,136**	6,083,354

All transactions were made on normal commercial terms and conditions and at market rates.

(c) Outstanding balances arising from sales/purchases of goods and services

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

	Consolidated	
	2010 $	2009 $
Current receivables (sales of goods and services)		
Other related parties	**90,447**	100,470
Current payables (purchases of goods and services)		
Other related parties	**780,336**	942,617

There is no allowance account for impaired receivables in relation to any outstanding balances, and no expense has been recognised in respect of impaired receivables due from related parties.

26. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

			Equity holding	
Name of entity	Country of incorporation	Class of shares	2010 %	2009 %
Webpointclassifieds Pty Ltd	Australia	Ordinary	**100**	100
Equipment Research Group Pty Ltd	Australia	Ordinary	**100**	100
Discount Vehicles Australia Pty Ltd	Australia	Ordinary	**100**	100
Automotive Data Services Pty Ltd	Australia	Ordinary	**100**	100
Auto Information Limited	New Zealand	Ordinary	**100**	100
Red Book Automotive Services (M) Sdn Bhd	Malaysia	Ordinary	**100**	100
Red Book Automotive Data Services (Beijing) Limited	China	Ordinary	**100**	100
Automotive Data Services (Thailand) Company Limited	Thailand	Ordinary	**100**	100

27. Events occurring after the reporting period

No events have occurred after the reporting period.

28. Reconciliation of profit after income tax to net cash inflow from operating activities

	Consolidated	
	2010 $'000	2009 $'000
Profit for the year	**43,235**	30,674
Depreciation and amortisation	**2,301**	2,102
(Gain) / Loss on sale of assets	**2**	(26)
Non-cash employee benefits expense - share-based payments	**1,064**	643
Net exchange differences	**(13)**	14
Change in operating assets and liabilities		
(Increase) in trade debtors	**(4,048)**	(1,490)
(Increase) in deferred tax asset	**(358)**	(225)
(Increase) decrease in other operating assets	**(414)**	849
Increase (decrease) in trade creditors	**1,308**	(1,249)
Increase in other operating liabilities	**1,353**	761
Increase in provision for income taxes payable	**5,517**	187
Increase in other provisions	**498**	502
Net cash inflow from operating activities	**50,445**	32,742

29. Earnings per share

(a) Basic earnings per share

	Consolidated	
	2010 Cents	2009 Cents
Profit from continuing operations attributable to the ordinary equity holders of the company	**18.6**	13.3
Total basic earnings per share attributable to the ordinary equity holders of the company	**18.6**	13.3

(b) Diluted earnings per share

Profit from continuing operations attributable to the ordinary equity holders of the company	**18.5**	13.0
Total diluted earnings per share attributable to the ordinary equity holders of the company	**18.5**	13.0

(c) Reconciliations of earnings used in calculating earnings per share

	Consolidated	
	2010 $'000	2009 $'000
Basic earnings per share		
Profit from continuing operations	**43,235**	30,675
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	**43,235**	30,675

(d) Weighted average number of shares used as the denominator

	Consolidated	
	2010	2009
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**231,940,939**	230,007,051
Adjustments for calculation of diluted earnings per share:		
Options	**5,847,500**	6,014,166
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**237,788,439**	236,021,217

(e) Information concerning the classification of securities

(i) Options

Options granted to employees under the carsales.com Ltd Employee Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 30.

30. Share-based payments

(a) Employee Option Plan

The establishment of the carsales.com Ltd Employee Option Plan was undertaken under a prospectus lodged with ASIC in 2000. Staff eligible to participate in the plan are those invited by the Board of Directors.

Options are granted under the plan for no consideration with conditions including a vesting period and expiry date.

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share in return for payment of the option price.

The exercise price of options is set in advance by the Board of Directors.

Set out below are summaries of options granted under the plan:

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
Consolidated - 2010								
Jul 2000	Jul 2010	$0.20	96,666	-	(71,666)	(25,000)	-	-
Jun 2006	Nov 2010	$0.70	210,000	-	(210,000)	-	-	-
Dec 2006	Dec 2011	$0.70	100,000	-	(100,000)	-	-	-
Feb 2007	Nov 2011	$1.05	700,000	-	(625,000)	-	75,000	75,000
Jul 2007	Jun 2014	$1.75	255,000	-	(130,000)	(15,000)	110,000	110,000
Aug 2007	Aug 2012	$1.75	225,000	-	(225,000)	-	-	-
Oct 2007	Oct 2011	$1.05	37,500	-	(37,500)	-	-	-
Oct 2007	Oct 2011	$2.15	625,000	-	(125,000)	-	500,000	500,000
Oct 2007	Oct 2012	$2.15	1,317,500	-	(75,000)	(70,000)	1,172,500	-
Sep 2008	Sep 2012	$2.00	625,000	-	-	-	625,000	625,000
Sep 2008	Sep 2012	$2.15	52,500	-	(52,500)	-	-	-
Sep 2008	Sep 2013	$2.00	1,450,000	-	-	(30,000)	1,420,000	-
Jul 2009	Jul 2014	$2.00	320,000	-	-	-	320,000	-
Dec 2009	Jun 2014	$3.89	-	500,000	-	-	500,000	-
Mar 2010	Oct 2014	$3.89	-	1,125,000	-	-	1,125,000	-
Total			**6,014,166**	**1,625,000**	**(1,651,666)**	**(140,000)**	**5,847,500**	**1,310,000**
Weighted average exercise price			$1.82	$3.89	$1.73	$1.27	$2.55	$2.51

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
Consolidated - 2009								
Jul 2000	Jul 2010	$0.20	106,666	-	(10,000)	-	96,666	96,666
Jun 2006	Nov 2010	$0.70	610,000	-	(400,000)	-	210,000	210,000
Dec 2006	Dec 2011	$0.70	100,000	-	-	-	100,000	100,000
Feb 2007	Nov 2011	$1.05	925,000	-	(225,000)	-	700,000	700,000
Jul 2007	Jun 2014	$1.75	260,000	-	-	(5,000)	255,000	255,000
Aug 2007	Aug 2012	$1.75	225,000	-	-	-	225,000	225,000
Oct 2007	Oct 2011	$1.75	37,500	-	-	-	37,500	37,500
Oct 2007	Oct 2011	$2.15	625,000	-	-	-	625,000	625,000
Oct 2007	Oct 2012	$2.15	1,367,500	-	-	(50,000)	1,317,500	-
Sep 2008	Sep 2012	$2.00	-	625,000	-	-	625,000	-
Sep 2008	Sep 2012	$2.15	-	52,500	-	-	52,500	-
Sep 2008	Sep 2013	$2.00	-	1,450,000	-	-	1,450,000 -	
Jul 2009	Sep 2014	$2.00	-	320,000	-	-	320,000	-
Total			**4,256,666**	**2,447,500**	**(635,000)**	**(55,000)**	**6,014,166**	**2,249,166**
Weighted average exercise price			$1.57	$2.00	$0.82	$2.11	$1.82	$1.43

The Director's estimate of the weighted average share price at the date of exercise of options exercised regularly during the year ended 30 June 2010 is estimated to be approximately $2.90 (2009: approximately $1.75).

The weighted average remaining contractual life of share options outstanding at the end of the period was 3.09 years (2009 - 3.28 years).

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 30 June 2010 ranged between $0.98 and $2.01 per option (2009 - between $0.16 and $0.36). The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2010 included:

(a) options are granted for no consideration. For vesting dates refer page 22.

(b) exercise price: $3.89 (2009 - $2.00 and $2.15)

(c) grant date: December 2009 and March 2010 (2009: September 2008 and July 2009)

(d) expiry date: June 2014 and October 2014 (2009: September 2012, September 2013, September 2014)

(e) share price at grant date: $4.03 and $5.45 (2009 - $1.75 and $2.20)

(f) expected price volatility of the company's shares: 35% (2009 - 35%)

(g) expected dividend yield: 3.7% (2009 - 7.3%)

(h) risk-free interest rate: 5.30% and 5.75% (2009 - 4.11%)

The expected price volatility is based on publicly available information for companies considered to be comparable to carsales.com Ltd.

(b) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated	
	2010 $'000	2009 $'000
Options issued under employee option plan	**1,064**	644
	1,064	644

31. Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	Parent entity	
	2010 $'000	2009 $'000
Balance sheet		
Current assets	**25,224**	27,914
Non-current assets	**86,102**	85,256
Total assets	**111,325**	113,170
Current liabilities	**27,467**	22,050
Non-current liabilities	**335**	19,040
Total liabilities	**27,802**	41,089
Shareholders' equity		
Contributed equity	**64,384**	62,293
Reserves - share based payments	**2,978**	1,914
Retained earnings	**16,161**	7,873
	83,523	72,081
Profit or loss for the year	**41,695**	29,539
Total comprehensive income	**41,695**	29,539

(b) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2010 or 30 June 2009.

Directors' declaration
& **Auditor's** report

Directors' declaration

In the directors' opinion:
(a) the financial statements and notes set out on pages 40 to 78 are in accordance with the *Corporations Act 2001*, including:

- (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
- (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the financial year ended on that date; and

(b) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the Managing Director and Chief Financial Officer required by section 295A of the *Corporations Act 2001.*

Melbourne
18 August 2010

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Independent auditor's report to the members of carsales.com Limited

Report on the financial report

We have audited the accompanying financial report of carsales.com Limited (the company), which comprises the balance sheet as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the carsales.com Limited group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

PRICEWATERHOUSECOOPERS

Independent auditor's report to the members of carsales.com Limited (continued)

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001.*

Auditor's opinion

In our opinion:

(a) the financial report of carsales.com Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001,* and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 16 to 24 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of carsales.com Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

John Yeoman
Partner

Melbourne
18 August 2010

The shareholder information set out below was applicable as at 18 August 2010.

A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

	Class of equity security			
	Ordinary shares			
Holding	Shares	Options	Redeemable preference shares	Convertible notes
1 - 1000	**812**	-	-	-
1,001 - 5,000	**1,306**	11	-	-
5,001 - 10,000	**384**	10	-	-
10,001 - 100,000	**330**	27	-	-
100,001 and over	**80**	15	-	-
	2,912	63	-	-

There are 30 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

	Ordinary shares	
Holding	Number held	Percentage of issued shares
ACP Magazines Limited	114,205,181	49.1
Walter Pisciotta	18,740,347	8.1
J P Morgan Nominees Australia Limited	12,471,967	5.4
HSBC Custody Nominees (Australia) Limited	12,455,619	5.4
Gregory Paul Roebuck	7,274,055	3.1
National Nominees Limited	5,756,251	2.5
Citigroup Nominees	5,330,552	2.3
Cogent Nominees Pty Limited	4,885,681	2.1
Grant Taylor	4,258,277	1.8
Geoff Brady	3,600,000	1.5
Rod Dux	3,100,000	1.3
Peter Aitken	2,756,555	1.2
Steven Kloss	2,715,000	1.2
Bill Robinson	2,470,000	1.1
Bond Street Custodians	2,186,524	0.9
Richard Collins	1,930,750	0.8
Garry Hoover	1,755,000	0.8
Mr Andrew Gajtan Curmi	1,350,500	0.6
Shane Pettiona	1,245,714	0.5
ANZ Nominees	898,067	0.4
	209,386,040	**90.1**

	Number on issue	Number of holders
Options issued under the carsales.com Ltd Employee Option Plan to take up ordinary shares	5,847,500	63

C. Substantial holders

Substantial holders in the company are set out below:

	Number held	Percentage
Ordinary shares		
ACP Magazines Limited	114,205,181	49.10 %
Walter Pisciotta	18,740,347	8.10 %
Hyperion Asset Management	12,146,850	5.20 %

D. Voting rights

The voting rights attaching to each class of equity securities are set out below:

(a) Ordinary shares
On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(b) Options
No voting rights.

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