

ANNUAL

REPORT

2016



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## VISION

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**carsales.com Ltd** is a company that makes the buying, selling and owning of cars, trucks, boats, motorbikes, caravans and equipment simple, safe and easy.

We strive to be the compelling, trusted leader in every market in which we operate. We do this by empowering our people to deliver world-class customer-centric solutions that help our customers across the world buy, sell and own with confidence. Whether it is a car, motorbike, caravan, truck, boat, combine harvester or a model car, we bring the same level of technology and knowledge to ensure buyers and sellers alike have meaningful and rewarding outcomes.

At **carsales** we deliver trust.



## WHAT WE DO

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**Founded in 1997, carsales.com.au has grown to be the nation's leading automotive classifieds site and in 2009 the Company floated on the ASX as carsales.com Ltd. carsales is regarded as one of Australia's original disruptors and has expanded to include a large number of market-leading brands.**

The carsales Network is Australia's number one online destination for buying and selling cars, motorbikes, trucks, boats, caravans and machinery equipment. More vehicles are sold using the carsales Network than anywhere else.

Our core network of market-leading Australian classifieds sites is augmented by classifieds businesses in Chile, Mexico, Brazil, South Korea, Thailand, Malaysia and Indonesia. Our RedBook valuation business has operations in Australia, New Zealand, China, Thailand and Malaysia. Our businesses around the world are underpinned by cutting edge technology and advertising solutions and are enhanced by unique valuation and identification data. The latest reviews,

road tests and industry news are all published on our sites, ensuring our buyers and sellers are fully informed and may deal with each other in confidence.

carsales is committed to having a positive impact on the community and to ensuring that future generations are supported. We achieve this through a diverse range of initiatives and employment practices and through our charitable arm, the carsales Foundation. As one of the original disruptors in the market, we understand how vital innovation is to our continued success. We believe that our solutions and services are world-class and in order to ensure this continues, we strive to attract, retain and celebrate a truly diverse workforce that is empowered to deliver world-class solutions.



# HISTORY



**1997**

Founded by Greg Roebuck, Wal Pisciotta and other Senior Executives as carz.com.au



**1997**

August - acquired carsales.com.au domain



**2000**

Became a public non-listed company



**2002**

Founder Greg Roebuck appointed Chief Executive Officer



**2010**

Launched iOS app for iPhone and iPad, and later an Android app



**2013**

Acquired 19.9% of iCar Asia Limited (ASX: ICQ)



**2013**

Acquired 30% of Brazil's number one auto site Webmotors



**2014**

Acquired 49.9% of South Korea's number one online car classifieds website SK Encar

## Number of cars listed on carsales.com.au





**2003**

bikesales.com.au released



**2005**

Acquired online classifieds websites from PBL including CarPoint/BoatPoint



**2007**

Acquired RedBook



**2009**

Initial Public Offering (IPO) at \$3.50/share



**2014**

Acquired 50.1% of Stratton Finance



**2015**

Acquired 50.1% of Auto Inspect



**2015**

Acquired 65% of Mexico's SoloAutos



**2016**

Acquired 83.3% of Chileautos

# FY16 HIGHLIGHTS

## Expanding global network\*



## Australia's number one



### Did you know?

- Growth of over 30% in Android app traffic
- 64% of customers using mobiles and apps to search for a car on carsales.com.au
- Apps win awards again
- Number of brand new cars in stock up 15% year on year
- Platform now cloud based (AWS) enabling rapid global deployment of carsales IP and technology to integrate international clients and acquisitions
- Integration of vehicle inspection services business Auto Inspect – rebranded RedBook Inspect
- carsales cloud technology live in Mexico
- State-of-the-art vehicle stock locators integrating finance search for BMW and Mercedes Benz
- New dealer portal enabled the consolidation of our B2B clients
- Stratton franchise expansion – now has a presence in every state and territory

\* Total of figures for all websites we have an interest in globally.

## Key investments for the year

- Chileautos (83.3%) – Chilean online classifieds
- SoloAutos (65%) – Mexican online classifieds
- PromisePay (10.1%) – digital payment platform
- Autologia – Spanish language editorial assets in Mexico acquired by SoloAutos
- Auto Inspect (50.1%) – Australian inspection services
- All About Finance (75%) – specialised marine and leisure finance acquired by Stratton

## Key products for the year

carsales continued its proud track record of innovation in FY16. New product releases included:

- Inbox and notification centre – all alerts and messages in one place
- Dealer depth products (Top Spot, Top Deal, Multilist)

- Instant offer – no hassle way to sell your car
- Free basic ad where the car is priced under \$3,000 – similar product released across bike, marine and caravan verticals
- Facebook instant articles
- RedBook Inspect integration into carsales.com.au
- motoring.com.au site refresh and native advertising

## In depth

### New Car Showroom

This year, after in-depth research, we released New Car Showroom in response to changes in consumer buying behaviour. The Showroom is a compelling and industry leading research offering across all brand new car categories, designed to make the experience exciting and easy for consumers, whilst maintaining the feeling of a premium environment synonymous with buying a brand new car.

The new experience includes improved search tools and information to enable customers to feel more empowered and informed throughout their buying journey.

- **Car comparison** – compare multiple models from any manufacturer against each other.
- **Brand pages** – explore every manufacturer and what they offer, all in one place.
- **Special offers** – all deals available in-market from all the manufacturers.
- **Detailed pricing information** – clear visibility of in-market pricing ranges.
- **Build and locate process** – helping customers determine and find the right car based on their needs.



# THE CARSALES WORLD



- ① **carsales.com Ltd**  
Staff: 508  
Offices: Melbourne, Sydney  
Perth, Adelaide and Brisbane
- ② **Stratton Finance**  
Staff: 216  
Offices: Melbourne and Sydney
- ③ **SK Encar – South Korea\***  
Staff: 125  
Office: Seoul
- ④ **SoloAutos – Mexico**  
Staff: 45  
Office: Guadalajara  
Acquired 65% in October 2015
- ⑤ **Chileautos – Chile**  
Staff: 30  
Office: Santiago  
Acquired 83.3% in March 2016
- ⑥ **Webmotors – Brazil\***  
Staff: 206  
Office: São Paulo
- ⑦ **iCar Asia\***  
Staff: 294  
Offices: Kuala Lumpur, Bangkok  
and Jakarta

**RedBook International**  
Staff: 26

- ⑧ **China**  
Office: Beijing
- ⑨ **Thailand**  
Office: Bangkok
- ⑩ **Malaysia**  
Office: Kuala Lumpur
- ⑪ **New Zealand**  
Office: Auckland

\* Reflects minority shareholding investments.

# OUR BRANDS

## Domestic

 carsales.com.au

 quicksales.com.au

 bikesales.com.au

 motoring

 boatsales.com.au

 Uniquecarsales.com.au

 caravancampingsales.com.au

 modelcarsales

 equipmentsales.com.au

 CarPoint.com.au

 constructionsales.com.au

 BoatPoint.com.au

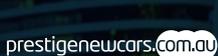
 trucksales.com.au

 discountnewcars.com.au

 farmmachinesales.com.au

 discountusedcars.com.au

 tyresales.com.au  
For the best deal on tyres

 prestigeneewcars.com.au

 parisales

## Domestic and products and services

 DATAMOTIVE

 LiveMarket™

 mediamotive

 CarFacts.com.au  
CAR HISTORY REPORTS

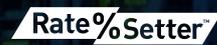
 Redbook INSPECT

 Redbook

 RYVUSS

 stratton

 af  
all about cars

 Rate%Setter™

## International

 chileautos.cl  
Vehículos en venta con fotografía

 soloautos.mx  
El portal de autos líder en México!

 autología  
COSTA RICA • GUATEMALA • CUBA • PARAGUAY

 WebMotors

 SK encar

 iCarAsia

 Carlist.my  
MALAYSIA'S NO.1 CAR SITE

 Mobil123.com  
PORTAL OTOMOTIF NO. 1

 one2car.com  
THAILAND'S NO.1 CAR SITE

 ThaiCar.com  
THE RIGHT CAR FOR YOU

# FY16 FINANCIAL PERFORMANCE

## Revenue

**\$344m**

Group revenue up 10%

## EBITDA

**\$170m**

Group EBITDA up 10%

## NPAT

**\$111m\***

Adjusted group net profit after tax up 9%

- Online advertising revenue up 11% on prior year.
- Data, research and services revenue up 9% on prior year.

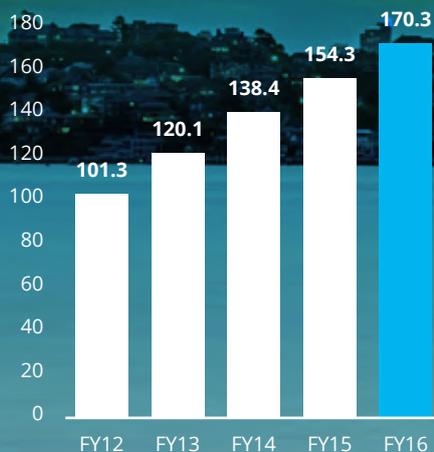
- Finance and related services gross profit up 29% on prior year.
- Group EBITDA margin maintained at 50%.

- Share of net profit from international businesses up 18% to \$10.1 million.
- Final dividend declared of 19.5 cents per share up 10% on prior year.

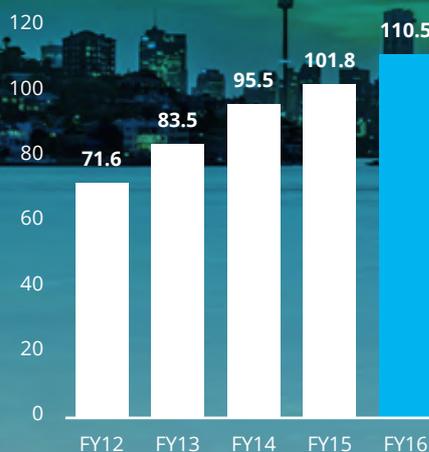
Revenue (millions)



EBITDA (millions)



Adjusted NPAT (millions)



\* Adjusted net profit after tax is profit attributable to equity holders of the Company after adding back gain on associate dilution, gain on sale of business and acquired intangible amortisation expense.

Year ending 30 June 2016	A\$ Millions		Growth	
	FY16	FY15	\$M	%
Revenue				
- Online advertising	240.7	216.5	24.2	11
- Data and research	35.9	33.0	2.9	9
- Finance and related services	63.0	59.4	3.6	6
- International	4.4	2.9	1.5	54
Total revenue	344.0	311.8	32.2	10
Operating expenses (before interest and D&A)	(173.7)	(157.5)	(16.2)	(10)
<b>EBITDA</b>	<b>170.3</b>	154.3	16.0	10
EBITDA margin	50%	50%		
Depreciation and amortisation	(7.5)	(4.7)	(2.8)	(60)
EBIT	162.8	149.6	13.2	9
Net interest expense	(8.4)	(8.5)	0.1	1
<b>Profit before tax</b>	<b>154.4</b>	141.1	13.3	9
Income tax expense	(47.4)	(42.3)	(5.1)	(12)
Profits from associates	5.3	4.9	0.4	8
Gain on business disposal	0.9	-	0.9	n/a
Gain on associate dilution	0.9	3.5	(2.6)	(74)
Outside equity interests	(4.8)	(4.0)	(0.8)	(21)
<b>Reported net profit after tax</b>	<b>109.3</b>	103.2	6.1	6
Reported earnings per share (cents)	45.4	43.2	2.2	5
Adjusted net profit after tax*	110.5	101.8	8.7	9
Adjusted earnings per share (cents)*	45.9	42.6	3.3	8

\* Adjusted NPAT and earnings per share above are post non-controlling interests and exclude one-off gain on business disposal, gain on associate dilution and acquired intangible amortisation. See Note 6 of the financial statements for reconciliation to reported NPAT and earnings per share.

# CHAIR'S REPORT



**Jeffrey Browne**  
Chair

**I am very pleased to report another successful year for carsales.com Ltd, where new heights have again been achieved in terms of key financial metrics and growth generally across the business.**

Most obviously, our closing share price of \$12.32 as at 30 June 2016, reflects more than 20% growth on our closing price of \$10.19 at 30 June 2015.

Revenue for the last 12 months is up 10% on the previous corresponding period (pcp) (from \$311.8 million to \$344.0 million) and EBITDA up by a similar margin (from \$154.3 million to \$170.3 million).

Adjusted net profit (after tax) and pro-forma operating cash flow (excluding the timing of a one-off change to tax payments in FY15) are both up 9% (from \$101.8 million to \$110.6 million and \$112.9 million to \$122.6 million respectively).

These results reflect the skill and dedication of a highly motivated management team, very capably led by our Managing Director and CEO, Greg Roebuck, to whom I extend our congratulations and thanks on behalf of the Board.

In August last year I took over the role of Chair from our long-standing and founding Chair, Wal Pisciotta. Wal's skilful oversight of the Board has been fundamental to the success of carsales.com Ltd and I wish to record the Board's deep appreciation for

his stewardship, hard work and dedication to the task of Chair and Director.

Fortunately Wal's contribution is not lost to us as a result of him continuing as a Non Executive Director and it was indeed fitting recognition of his many great achievements that Wal was awarded the Order of Australia Medal for services to the automotive industry in this year's Queen's Birthday honours.

As we move forward, the process of healthy Board renewal must remain in our sights if we are to continue to provide visionary, stimulating and fresh leadership to our highly skilled management team. To that end I am delighted to welcome our newest Director, Edwina Gilbert, who has already made a significant contribution to the Board, assisted by her legal background and extensive industry experience as dealer principal within the Phil Gilbert Motor Group. My thanks and appreciation as well to all of my co-Directors, each of whom has worked tirelessly to achieve the results we now proudly report from the last 12 months.

As our Managing Director and CEO has alluded to more specifically in his report, our last year has seen a number of key, strategic acquisitions. Greg and his team have not only delivered significant organic growth in our traditional markets here in Australia, but in addition the Company's assets in Asia and Latin America have continued to develop very nicely for us. That contribution will be further enhanced over time by the maturation of our latest acquisitions in Mexico and Chile. Again, my congratulations to Greg and his team for their foresight in chasing down these new opportunities that importantly broaden and strengthen our revenue base.

Our obvious success over the past 12 months also creates new challenges for us in the future. We need to develop and ensure that we are well and skilfully resourced to fully capitalise on our growth and to continue to scout for new opportunities. I am very confident that we have a Board and a management team that not only recognises these challenges, but embraces them with a vigour that characterises the very special DNA of carsales.com Ltd.

*As we go forward, we will continue to disrupt, innovate and benchmark ourselves against the highest standards of technology, while at all times focusing on continuing to deliver growth and prosperity to our shareholders.*

*Revenue for the last 12 months is up 10% on the previous corresponding period (from \$311.8 million to \$344.0 million) and EBITDA up by a similar margin (from \$154.3 million to \$170.3 million).*

So as we go forward, we will continue to disrupt, innovate and benchmark ourselves against the highest standards of technology, while at all times focusing on continuing to deliver growth and prosperity to our shareholders. I thank all of our investors for the faith shown in our Company and, very importantly, I thank all of our loyal customers who we proudly service and who help us every day to improve and provide new and exciting services in the automotive industry, an industry that continues to grow and diversify, and an industry that we are privileged to be a special part of.

Very best wishes,



**Jeffrey Browne**  
Chair

Melbourne  
8 August 2016



# MANAGING DIRECTOR'S UPDATE



**Greg Roebuck**  
Managing Director and  
Chief Executive Officer

*Internationally,  
we've taken majority  
stakes in two more  
Latin American  
businesses: SoloAutos  
and Chileautos.*

Thank you for your support of our great business in what has been another exciting and eventful year. FY16 has once again seen us make a number of new investments, deliver world-leading technology solutions and move further ahead in our market leadership. We're already focused on the FY17 year and expect it to be another big year of opportunities and challenges – which of course the carsales team is always up for.

The 26th of June 2015 saw us take a controlling stake in a business called Auto Inspect. This business provides numerous inspection services ranging from simple validation services – for example in finance contracts to prove the car is in fact the car being financed, through to detailed and comprehensive pre-purchase inspections, and everything in between. We've subsequently renamed this business 'RedBook Inspect' to leverage the 70 years of trust in our RedBook brand and extend the 'Driving Confidence' that is RedBook. Already this business is proving to be one of our best acquisitions, delivering strong growth and great synergies.

Internationally we've taken majority stakes in two more Latin American businesses: SoloAutos and Chileautos. SoloAutos is a strong market player in Mexico – a huge market that is continuing to perform well economically, and with a population of over 125 million is an important marketplace with significant upside. Chileautos is a clear market leader and whilst Chile is a smaller market with a population of around 18 million, it is an advanced and vibrant country. Having controlling stakes in markets where Spanish is the common language has meant we're comfortable investing substantial resources in making our platforms multilingual, which will provide numerous opportunities for us to take our market-leading capabilities – such as our award-winning app and lead/inventory management systems – to the rest of the world.

Domestically we've recently taken a small stake in a technology-based payments business: PromisePay. We see the ability to protect buyers wishing to send deposits or even full payments securely and with guaranteed trust as an important service. We will shortly be rolling out a new product called 'PayProtect' as the first of our integrations with PromisePay.

The dealer arm of our business continues to perform well and we've focused significant resources on this part of the business. Our world-class solutions to help dealers operate profitably in an ever-changing environments has ensured we're more and more seen by this core customer group as a partner not a disrupter. We have made good progress this year with a number of car companies in regards to their policies regarding the listing of new cars online; disappointingly, there are still some car companies that require their retailers to not list new car stock with prices online. Whilst this clearly hurts a consumer's ability to have price transparency, we believe it is also hurting the sales volumes of these vehicles – and we hope to see restrictions reduce over time.

The private seller marketplace continues to expand. This year saw us introduce free listings for cars under \$3,000. We've also introduced similar free listings in some of our other vertical marketplaces such as bikesales, caravanandcampingsales and boatsales. We've seen strong take up of this offering as consumers are able to use Australia's most trusted and safe platform to get a great result for cheaper items.

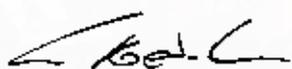
Our corporate display business has expanded its resources into a dedicated 'OEM' team. This team is focused on growing and enhancing our relationships with the car companies and we regularly host car company CEOs and Senior Executives from around the country in our offices, to showcase how we can provide vital insights and solutions to this key category of customer.

Both Webmotors and SK Encar – our Brazilian and Korean business investments respectively, continue to perform. Whilst we would like to be seeing greater contributions from these investments, we're mindful of moving the business models forward at an appropriate speed. Webmotors, as of July 2016, is trialling a 'leads model' – very similar to the Australian model that carsales has – and we expect the accountable nature of this model to not only deliver improved financial results, but also to cement the value that Webmotors delivers to its dealers in a very tangible way. SK Encar is still some way from this model, but is growing its market share and capabilities very well.

Across the business our focus on innovation continues. We hold a number of hackathons each year and I am continually amazed at the fantastic ideas and innovations the team at carsales delivers. We have a wonderful culture that stems from an unwavering passion to be world-class in everything we do. Our continued success is as a direct result of the wonderful team we have and I'd like to take this opportunity to publicly thank them all. Our people are the envy of our competitors and I'm very proud of what they bring to the business every day.

In closing, we've had another great year, we've made more investments in exciting businesses both here and abroad and continued to deliver world-class innovations and growth across all areas of the Company.

Yours sincerely,



**Greg Roebuck**  
Managing Director and CEO

Melbourne  
8 August 2016



# DIRECTORS' REPORT

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of carsales.com Ltd and the entities it controlled at the end of, or during, the year ended 30 June 2016.

## Operational and Financial Review

### Principal activities

carsales is the Australian automotive classified market leader and facilitates anyone to buy and sell a car, bike, boat, caravan and much more across our network of sites. Our network of sites is set out on page 7.

Our key services, customers and geographies include:

### Online Advertising Services

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

Classified advertising allows customers (including dealers and consumers) to advertise automotive and non-automotive goods and services for sale across the carsales Network. Classified advertising typically allows a customer to advertise their red brand X, model X car with 20,000km for \$10,000 on a carsales website. This segment includes services such as subscriptions, lead fees and priority placement services across automotive and non-automotive websites.

Display advertising typically involves corporate customers such as automotive manufacturers/importers, finance and insurance companies etc, placing advertisements on carsales Network websites. 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, as banner advertisements or other sponsored links.

Online advertising includes carsales' investment in tyresales.com.au, which is an online tyre retailer that allows consumers to transact and purchase tyres; and RedBook Inspect, which provides inspection services published online as part of classified advertisements.

### Data and Research Services

The carsales.com Ltd divisions of RedBook, LiveMarket, DataMotive and DataMotive Business Intelligence provide various solutions to a range of customers including manufacturers/importers, dealers, industry bodies, finance and insurance companies. They offer products including software, analysis, research and reporting, valuation services, website development and hosting as well as photography services.

### Finance and Related Services

Finance and Related Services includes the Stratton Finance Pty Ltd subsidiary, which provides innovative finance arrangements for vehicles, boats and other leisure items, vehicle procurement and other related services to customers. Revenues arise from commissions paid by finance providers and other related service providers. carsales also has an investment in RateSetter Australia Pty Ltd (RateSetter) – an innovative peer-to-peer finance provider.

### International

carsales.com Ltd has operations in overseas countries through both subsidiaries and equity accounted associate investments as set out below:

Automotive data services:

- Auto Information Limited (New Zealand) – 100%
- RedBook Automotive Services (M) Sdn Bhd (Malaysia) – 100%
- RedBook Automotive Data Services (Beijing) Limited (China) – 100%
- Automotive Data Services (Thailand) Company Limited – 100%

Online automotive classifieds:

- Webmotors S.A. (operations in Brazil) – 30%
- iCar Asia Limited (operations in Indonesia, Malaysia and Thailand) – 20.2%
- SK ENCARSALES.COM Ltd (operations in South Korea) – 49.9%
- carsales Mexico SAPI de CV (SoloAutos) (operations in Mexico) – 65%
- Chileautos SpA (operations in Chile) – 83.3%

## Group Financial Results

2016 was a strong year as we continued to strengthen our domestic market position and deliver on our strategy of growth in core classifieds and data markets, complementary adjacent businesses and international markets.

FY16 was another year of record financial performance with Group operating revenue rising to \$344.0 million, up 10% on the prior comparative period.

Group earnings remained strong with EBITDA up 10% on the prior comparative period (pcp) to \$170.3 million and EBITDA margins of 50%.

Adjusted profit attributable to the owners of carsales.com Ltd was \$110.5 million, up 9% on the pcp.

Reported profit attributable to the owners of carsales.com Ltd was \$109.3 million, up 6% on pcp.

The Directors believe the additional information on IFRS measures included in the report is relevant and useful in measuring the financial performance of the Group. In particular, the presentation of 'adjusted net profit' and 'adjusted Earnings Per Share' provides the best measure to assess the performance of the Group by excluding one-off gains from disposal of business, gains on associate dilution and non-cash acquired intangible asset amortisation from the reported IFRS measures.

### carsales domestic highlights

The Australian business performed well during FY16 as we implemented our core and adjacent business growth strategy. Solid revenue growth was achieved across all business segments as follows:

#### Online advertising

- Dealer revenue up 10% on pcp to \$123.8 million reflecting strong growth in depth products and pricing improvements expanding yields. Used car enquiry volumes were up 3% and new car enquiry volumes showed improvement in the second half. Used and new inventory grew by 8% and 15% respectively on pcp.

- Private revenue up 19% on pcp to \$51.1 million with private automotive ad volumes up double digit percentage in the second half accompanied by lower time to sell. Launch of the free under \$3,000 basic ad campaign in automotive has supported this inventory growth. The extension of the campaign to other lifestyle and leisure brands has been well received. In our adjacent businesses tyresales.com.au and RedBook Inspect showed strong revenue growth.
- Display revenue up 9% to \$65.8 million reflecting improved trends from 3% prior year growth rate. Our continued investment in analytics capability and insights is complementing the evolution of the display product set. The launch of the refreshed New Car Showroom will provide new opportunities for display. Despite ongoing changes in OEM advertising policies, we still see positive signs in our relationships with OEMs across the board.

#### *Data, Research and Services*

- Data, Research and Services revenue up 9% to \$35.9m. There was continued solid pcp revenue growth from Livemarket, driven by volume growth. Our RedBook business continues to expand, reflecting increasing demand from OEMs for data services.

#### *Finance and Related Services*

- Finance and Related Services revenue up 6% to \$63.0 million and gross profit up 29% on pcp to \$47.2 million reflecting growth in core finance broking and reduction in volume of lower margin in other products. Strong growth in core finance broking revenue up 31% on pcp. All About Finance acquisition integrated into core Stratton operations and performing well. RateSetter integration continues and showing encouraging signs for the future. 10.1% stake in PromisePay acquired during the year with significant potential to provide complementary transaction settlement services to core customer base.

#### *Domestic operations*

Costs were well controlled leading to EBITDA up 10% on pcp to \$170.3 million. Depreciation and amortisation increased by \$2.8 million on the prior period reflecting acquisition intangible asset amortisation and depreciation of capitalised labour supporting group-wide integration and globalisation projects. The sale of the homesales business resulted in a \$0.9 million gain.

#### *carsales International Highlights*

The Company holds interests in online automotive advertising companies operating in high-growth international markets.

We acquired controlling stakes in SoloAutos (Mexico) and Chileautos (Chile) during the year. Along with our RedBook International business, international contributed \$4.4 million to Group revenue – up 54% on the prior year. There is a significant opportunity to grow revenue and earnings from implementation of the carsales technology platform into these businesses.

In addition, carsales owns a portfolio of equity accounted investments in Brazil, South Korea and South East Asia.

#### *Webmotors*

Webmotors S.A. (Brazil) is owned 30% by carsales and is the number one online automotive classifieds company in Brazil. Webmotors delivered underlying local currency revenue growth of 13% with growth in both dealer and private revenue segments across the year. Display remains challenging reflecting the subdued economic conditions and impacts on the new car market as a result. Operational improvements continue to drive over 50% growth in dealer lead volumes on pcp. The trialling of a leads based model for dealers from July 2016 is expected to be a good growth contributor over the coming year. Margins remain steady, reflecting underlying leverage offset by investments to implement the lead model. carsales' share of earnings excluding acquired intangible amortisation was \$4.0 million (down 1% on prior year), which reflected adverse FX rates during the year.

#### *SK Encar*

SK Encarsales (South Korea) is 49.9% owned by carsales and is the number one online automotive classifieds company in South Korea. The business delivered underlying local currency revenue growth of 21% with strong continued revenue growth across dealer, private and display advertising channels. Dealer growth was a standout reflecting growth in premium listing products. Private growth reflects introduction of paid listings in April 2015. EBITDA margin reduced slightly on the prior year to 52% as the business continued to invest in personnel, technology and marketing in the second half of the year. carsales' share of earnings excluding acquired intangible amortisation was \$7.1 million (up 15% on prior year).

#### *iCar Asia*

iCar Asia Limited (ASX:ICQ) is 20.2% owned as at 30 June 2016 by carsales. iCar Asia is the largest online automotive classifieds network in South East Asia owning the number one online automotive classifieds sites in Malaysia and Thailand, and the number two site in Indonesia. carsales' share of net loss after tax (excluding gain on dilution) is estimated to be (\$2.4 million). carsales continues to support iCar's business as it evolves. carsales recognised a gain of \$0.9 million in the year as a result of topping up our equity position.

Including our associates, adjusted net profit attributable to carsales shareholders from international operations grew by 18% to \$10.1 million in the year. Adjusted net profit excludes gain on dilution and acquired intangible amortisation.

#### **Outlook**

We continue to closely monitor our performance and market conditions. Domestic core business performance in the first month of FY17 has remained solid. Domestic adjacencies continue to build scale and breadth with a number of promising opportunities. Assuming these conditions continue to be stable, we anticipate FY17 revenue and EBITDA growth will remain solid.

In terms of international outlook, assuming there is no further deterioration in market conditions, we anticipate the trialling of the lead model in Brazil to be a good growth contributor to local currency revenue and earnings in the coming year. South Korea is expected to see continued solid local currency revenue and earnings growth. We expect ongoing integration of core carsales IP and technology into our Chilean and Mexican businesses to provide a solid uplift in revenue and earnings in the coming year. A more detailed trading update will be provided at the October Annual General Meeting (AGM).

#### **Strategy**

Our strategy is to grow the three pillars of our business: core classified advertising and data services, complementary adjacent businesses, and international operations. This strategy allows us to maximise value for our customers and shareholders through expanding the breadth and depth of services we offer across new markets and geographies.

## Growing our core classified services

Classified services are the foundation of our business and we continue to innovate to provide a compelling world-class experience for consumers and customers. We're constantly improving our classified experience for consumers and dealers across all devices and make sure our network of sites is the number one destination for auto intenders in the markets in which we operate. We'll continue to expand the number of customers who list their car, bike or boat with carsales, increase the volume sold to existing customers and dealers through continued listing depth product evolution and share in the increased value that we create for customers through our innovative approach. Our display business is evolving to reflect the demand for rich media, leveraging our leading editorial content, and developing products to provide 'right time, right place' advertising placements to ensure that manufacturers have the opportunity to influence the decision-making process of car purchasers. Our data businesses will continue to grow and will allow us to provide deeper and more insightful analytics across our customer base, through increased personalisation of services and use of consumer data.

## Complementary adjacent business

Connecting buyers and sellers is only one part of our business. We aim to provide a frictionless end-to-end buying and selling experience and leverage our trusted brand and customer relationships throughout the ownership period. Our investments in Stratton Finance, RateSetter and PromisePay over the last two years assist our customers with financing their purchase, removing a key hurdle in the buying process. Our RedBook Inspect business provides inspection services to consumers, dealers and corporates and along with our core data assets increases the trust between buyers and sellers. Over the next year we will continue to invest in new products and business to continue to build trust.

We run tyresales.com.au – a leading Australian online tyre retailer – which also supports consumers' ownership experience. We anticipate growing this business and expanding the range of ownership services we provide to consumers over the coming years.

## Expanding international operations

This year marked a milestone in our international expansion strategy with the acquisition of majority stakes of leading classified businesses in Mexico and Chile. The carsales Network of subsidiaries and associate companies extends to 10 countries and allows us to take the market-leading technology and know-how from Australia into these new geographic markets to maximise returns from our investments. We have invested in a number of high growth, underserved markets that will benefit from structural classified shifts online as well as the investment carsales has already made in its core technology. We expect strong growth from our existing investments over the coming years as well as continuing to be on the lookout for new opportunities.

## Risk

Being a complex business in a growth market carries with it a number of risks that the Company manages including, but not limited to:

- Maintenance of professional reputation and brand name – the success of carsales and its businesses around the world is heavily reliant on its reputation and branding. Unforeseen issues or events, which place carsales' reputation at risk, may impact on its future growth and profitability.
- Relationship with dealers and OEMs – carsales derives a significant proportion of its revenue from motor vehicle dealers and automotive manufacturers (OEMs). A change in the size and/or structure of this market could impact carsales' earnings. In particular, consolidation of the dealer market with fewer, larger dealers or increased manufacturer control of dealers' online advertising activity may impact upon the prospects of carsales. In addition, a significant proportion of carsales' revenue is generated under monthly agreements with motor vehicle dealers. Should a significant number of dealers cancel or fail to renew their agreements, this may have an adverse effect on the financial performance of carsales.
- Competition – the online automotive advertising industry is highly competitive. carsales' performance could be adversely affected if existing or new competitors reduce carsales' market share from its current level.

- Downturn in the Australian economy, motor vehicle or general advertising market – the performance of carsales will continue to be influenced by the overall condition of the motor vehicle market. The motor vehicle market is influenced by the general condition of the Australian economy, which by its nature is cyclical and subject to change. In addition, carsales derives a significant proportion of its revenue from display advertisers on its network of websites. A decline or significant change in the advertising market as a result of broader economic influences or changing advertiser trends that the Company does not respond to could have a negative impact on carsales' earnings.
- Cyber security – the cyber threat to companies around the world is growing and unrelenting and carsales as an online business is not immune to these risks. carsales is vigilant and proactive in its approach to cyber security, investing resources to meet the challenges of a complex cyber environment in order to protect our customers' data. A cyber-attack or hack of carsales' systems could have serious impact on the Company's reputation and financial performance.
- Information technology – carsales' business operations rely on owned and third party IT infrastructure and systems. Any interruption to these operations or loss of customer data could impair carsales' ability to operate its customer facing websites, which could have a negative impact on carsales' financial performance and reputation. carsales' future performance will also depend on its ability to monitor and manage major projects such as website upgrades and other projects involving its IT infrastructure.
- International expansion – with the expansion of the business into new high-growth international geographies, the Company becomes exposed to the macroeconomic environment of these markets as well as to fluctuations in exchange rates. The Company may not be able to fully recoup its investment in these markets should it not be able to accelerate the growth of its businesses through the implementation of carsales' business models, intellectual property and technologies.



# DRIVING A SUSTAINABLE BUSINESS FORWARD

## People and culture

We work in a fast-paced and dynamic business environment, which means that attracting and retaining the best talent is essential to our sustained success. Our people are highly skilled, experienced and have our values and behaviours at their core. We are always looking at ways to provide more opportunities for our team to learn and evolve, and we work hard to provide a diverse environment that is inclusive and collaborative with a strong social conscience.

To achieve this environment, we promote a culture of feedback so that we can continuously improve. Some of our more formal feedback initiatives include our annual engagement survey and discussion groups.

## Engagement

We value employee engagement because we know that an engaged team has a direct impact on the success and sustainability of our business. Each year our team provides feedback via an engagement survey, which covers areas such as innovation, leadership, collaboration and communication. The survey results consistently tell us that our people are engaged, and points us to areas we can focus on and improve.

## Diversity

A diverse and inclusive working environment provides a wide range of perspectives, innovation, engagement and improved operational performance. To achieve this environment we promote a workforce that embraces and respects diversity

and inclusion through our Diversity and Inclusion Council, as well as of our Diversity strategy.

In 2015, we achieved the Workforce Gender Equality Employer of Choice citation in recognition of our systematic and strategic approach to the journey of achieving a gender diverse workplace. We see that this citation sets the very minimum that we must achieve moving forward and we will work to exceed the expectations of WGEA year on year.



*In early 2016 the carsales Foundation was formed with the vision to positively impact the community and show our commitment to making positive changes in all markets in which we operate.*



In addition to our diversity strategy we also have a set of specific gender equality objectives that we focus on, as set out below:

Objectives	Initiatives	Outcomes
Continue to grow the number of women performing senior roles from external appointments.	Initiatives include educating managers on the importance of a diverse workforce through unconscious bias training and an executive-led Diversity Steering Committee.  Continue to maintain quotas for recruitment shortlists.  Review all job advertisements for gender bias.	In FY16, 50% of our senior leadership appointments have been women.
Continue to implement career development programs to prepare women within the business to take on more senior roles.	Current initiatives include a mentoring program, training and development programs including communication, presentation, management and influence skills training.	The Company's mentoring program currently consists of 45% women. Of our career development programs, 38% of attendees were women and 44% of FY16 promotions within the business have been female.
Create an environment in which women network and mentor each other to progress their careers within carsales.	This year we implemented an Emerging Female Leaders program, which comprised workshops focused on leadership and networking. We also continued with our women's networking group and celebrated International Women's Day.	The Emerging Female Leaders program had 39 participants in FY16.  Our female networking groups hosted several sessions and the business collectively celebrated International Women's Day with a networking event and an inspiring guest speaker.
Implement workplace flexibility programs to create a workplace in which parents can meet both family and work responsibilities.	The Company increased paid parental leave again in FY16, further developed our transition and keeping in touch programs for members of the team taking parental leave, continued to support part-time options, provided child care referrals and flexible re-entry into the business from a period of parental leave.	In FY16, nine members of the carsales team took parental leave and the Company is currently supporting 17 members of the team with formal flexible working arrangements. We also have many more informal flexible working arrangements to allow for team members to meet their family and work commitments.

On 31st May 2016, in accordance with the *Workplace Gender Equality Act 2012*, carsales submitted a report to the Workplace Gender Equality Agency. This report provided information on carsales' policies and gender diversity numbers across the business. This report is available in the Investor Centre on the Company website at <http://shareholder.carsales.com.au/Investor-Centre/>.

### White Ribbon accreditation program

As part of our diversity strategy, we are proud to be part of the White Ribbon Workplace accreditation program. We see the program as a way for us to take a leadership role on the issue of domestic violence. Gaining accreditation will see us go through an intensive program of work to take active steps to prevent and respond to violence against women. It will take us 18 months and we are looking forward to the awareness it generates.



### Community

In early 2016 we formed the carsales Foundation with the vision to positively impact the community and show our commitment to making positive changes in all markets in which we operate.

The carsales Foundation is separate to the carsales business and is a registered charity. Each year the business has made a commitment to make an annual contribution to the Foundation. In addition, all proceeds from our team fundraising events will also go towards the Foundation.

The first phase of the carsales Foundation will focus on two core areas:

- tertiary education for the next generation; and
- community grants program.

The carsales Foundation is a registered charity and is overseen by a Foundation Board consisting of:

- Greg Roebuck – Chief Executive Officer and Managing Director;
- Cameron McIntyre – Chief Operating Officer;
- Nicole Birman – General Counsel and Company Secretary;
- Chris Polites – Dealer Director; and
- Jo Allan – GM People and Culture.

In the short time that the Foundation has been in existence, we are delighted to have already sponsored two scholarships.

## **Swinburne University: carsales Foundation – women in IT scholarship**

- The carsales Foundation women in IT scholarship is focused on encouraging women to undertake a career in the technology industry. Currently women are under-represented in technology and the carsales Foundation's goal is that this scholarship will support a female with a demonstrated academic ability and desire to undertake undergraduate studies in the field of information technology at Swinburne University. In addition to the scholarship, carsales will provide an internship to support the scholarship recipient to gain practical experience in a leading online organisation.

## **Curtin University: carsales Foundation – indigenous scholarship**

- The carsales Foundation indigenous scholarship has been developed in conjunction with Curtin University to encourage and support indigenous students who have chosen to undertake an undergraduate degree at Curtin University.

In addition to the Foundation's efforts, all carsales team members are encouraged to take a day out of the office to volunteer for a community-based charity. Our team has contributed many volunteer hours supporting organisations such as the Salvation Army, Cancer Council and the RSPCA's Million Paws Walk.

## **Learning and development**

We are focused on providing access to opportunities to support the development, retention and succession of our people. Some of these training and development programs include mentoring programs, our annual CEO scholarship award, leadership development, conferences, online learning plus internal and external training programs. In FY16 we saw over 3,900 hours of training provided for our team.

## **Mental health and wellbeing**

We are proactive in supporting our team's mental health. In the last 12 months we have introduced a program to support our team, which includes three aspects: My Physical Wellness, My Mental Wellness and My Future-Self Wellness. This program

involves initiatives such as group fitness training classes, seminars on topics such as healthy eating and relaxation, participation in the corporate games, our Employee Assistance Program, involvement in RUOK Day and more.

## **Hackathons**

As a business built on innovation and disruption, we encourage these values to continue from within. One of the ways we encourage innovation is through our Hackathons. A number of times a year we give our team creative freedom to come up with concepts and working prototypes to benefit the Company, our customers and our consumers. Many of these initiatives are developed and implemented. Whilst we know that running a Hackathon doesn't alone make us an innovative organisation, it certainly goes a long way to fostering creativity and empowerment to give something a go.

## Environment

Whilst the nature of the carsales business has a low environmental impact, the Company aims to minimise its environmental footprint. In all Company offices, carsales promotes recycling by having bins throughout our offices with clear explanation on how to correctly recycle, purchases only 100% recycled paper and enforces printing limits including default double sided, black and white printing and has implemented timed lights in all meeting rooms. The carsales head office in Richmond is certified as a 4.5 star NABERS rated building.

As part of carsales' continued efforts to minimise its environmental footprint, it has offset emissions for its fleet vehicles. carsales has offset these emissions through Greenfleet (Australia's most respected source of biodiverse carbon offsets). As a result of this relationship, Greenfleet will plant enough native trees on behalf of carsales to absorb 193.5 tonnes of CO<sub>2</sub> emissions and to restore native forests in Australia. To protect our climate and unique biodiversity, carsales has introduced

policies to reduce air travel and increase our use of video conferencing, which are having a significant impact on both the Company's environmental commitments and our financial targets.

The Company's move to cloud-based solutions and Amazon Web Services (AWS), for our cloud-based hosting is part of our commitment to reduce our environmental footprint. AWS has a long-term commitment to achieve 100% renewable energy usage for the global AWS infrastructure footprint. In April 2015, AWS announced that approximately 25% of the power consumed by its global infrastructure was from renewable energy sources with a goal of increasing that percentage to at least 40% by the end of 2016. As part of its renewable energy push, AWS continues to work on ways to increase the energy efficiency of its facilities and equipment, and to launch projects aimed at increasing the availability of renewable energy resources on the electrical grid that supplies power to current and future AWS cloud data centres.

## Corporate governance

carsales is committed to being ethical, transparent and accountable in everything that the Company does. We believe this is essential for the long-term performance and sustainability of our Company and supports the interests of our shareholders and other stakeholders. The Board of Directors is responsible for ensuring that the Company has an appropriate corporate governance framework to protect and enhance Company performance and build sustainable value for shareholders. This corporate governance framework acknowledges the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Principles and Recommendations) and is designed to support our business operations, deliver on our strategy, monitor performance and manage risk.

Our Corporate Governance Statement addresses the recommendations contained in the third edition of the ASX Principles and Recommendations and is available on our website at <http://shareholder.carsales.com.au/Investor-Centre/?page=Corporate-Governance>.

# BOARD OF DIRECTORS

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**Jeffrey Browne**

Non Executive Chair

Jeffrey practised as a commercial lawyer in Sydney and Melbourne for 22 years before joining the Nine television network, initially as Executive Director and later becoming Managing Director, with responsibility for all network operations. His legal experience saw him involved in a wide range of matters concerning dealers and motor vehicle manufacturers as well as other multinational OEMs. Jeffrey is also Chair of Holden Special Vehicles, where he has been a Director or Chair for over 12 years. Jeffrey's media experience includes broad management responsibilities and the development and implementation of new broadcast and digital platforms.

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**Greg Roebuck**

Managing Director and CEO

Greg was one of the original architects of carsales.com Ltd and has been on its Board since inception and Managing Director and CEO since May of 2002. Greg studied computer science at RMIT (Melbourne) and is a Fellow of the Australian Institute of Company Directors. He has over 32 years' experience in providing technology solutions to the Australian automotive industry. Greg won the Ernst & Young Entrepreneur of the Year Award for Australia in November 2009.

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**Richard Collins**

Non Executive Deputy Chair

Richard has been a Director of carsales.com Limited since 2000 and currently holds the position of Deputy Chair of the Board. Richard holds a degree in Commerce from Melbourne University, majoring in Economics and Company Law. He spent 10 years with the Ford Motor Company and has over 30 years' experience as a Dealer Principal, currently holding Ford, Toyota, Subaru, Suzuki, Isuzu Ute and Skoda franchises. Richard is also a member of the board of AADA (Australian Automotive Dealer Association) and the Deputy Chair of Stratton Finance.

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**Wal Pisciotta OAM**

Non Executive Director

Wal has more than 35 years' experience in supplying computer services to the automotive industry and is also the Chair of Pentana Solutions Pty Ltd. Wal holds a Bachelor of Science degree in Business Administration from the University of Alabama (United States) and was the Chair of carsales.com Limited since its inception until August 2015. Wal was recognised with the Medal of the Order of Australia for his services to the Australian automotive industry in the 2016 Queen's Birthday Honours.

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**Kim Anderson**

Non Executive Director

Kim is the former CEO and founder of Reading Room Inc/Bookstr.com, a community/social networking site for readers, a Non Executive Director of WPP Australia and New Zealand, former Fellow of the University of Sydney 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, the Nine Network, PBL and Ninemsn.

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**Patrick O'Sullivan**

Non Executive Director

Pat has been a Director of the Company since 2007 and was the Chief Operating Officer and Finance Director of Nine Entertainment Co Pty Limited (formerly PBL Media Pty Ltd), a position he held from February 2006, until 29 June 2012. Pat is a member of The Institute of Chartered Accountants in Ireland and Australia. He is a graduate of the Harvard Business School's Advanced Management Program. He also served as a Director and Company Secretary of Nine Entertainment Co Pty Limited and was Chair of Ninemsn. Pat is currently a Non Executive Director of iSentia, APN Outdoor, Little Company of Mary Health Care and Chair of HealthEngine and Lux Group.



**Edwina Gilbert**

Non Executive Director

Edwina has worked in the automotive industry since 2003, and is currently Dealer Principal of Gillen Motors and Director of Phil Gilbert Motor Group, managing 200 staff with two brands in two busy metropolitan locations. Edwina was the Chair of the Hyundai NSW Dealer Council and a member of the Hyundai National Dealer Council from 2010 to 2015. Edwina holds a Bachelor of Laws and Bachelor of Arts from Sydney University and practised commercial law before moving into the automotive industry.



**Steve Kloss**

Alternate Director

Steve has more than 25 years' experience in supplying computer services to the automotive industry and is currently Chief Executive Officer at Pentana Solutions Pty Ltd. Steve holds a Bachelor of Business degree from Monash University and is an experienced board Director, currently sitting on six boards in addition to his position as Alternate Director of carsales.com Ltd.



**Nicole Birman**

Company Secretary

Nicole holds the position of General Counsel and Company Secretary of carsales.com Ltd. Nicole joined carsales in 2010 and is an experienced commercial lawyer. As a lawyer at one of Australia's premier law firms, Nicole worked across a number of legal areas. For the past eight years Nicole has been advising leading online companies as in-house counsel. Nicole holds a Bachelor of Laws (Hons) and a Bachelor of Arts from Monash University.

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# MANAGEMENT – EXECUTIVE LEADERSHIP TEAM

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**Greg Roebuck**

Managing Director and CEO

Greg was one of the original architects of carsales.com Ltd and has been on its Board since inception and Managing Director and CEO since May of 2002. Greg studied computer science at RMIT (Melbourne) and is a Fellow of the Australian Institute of Company Directors. He has over 32 years' experience in providing technology solutions to the Australian automotive industry. Greg won the Ernst & Young Entrepreneur of the Year Award for Australia in November 2009.

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**Cameron McIntyre**

Chief Operating Officer

Cameron has been the Chief Operating Officer at carsales.com Limited since October 2014, prior to which he was the Chief Financial Officer and Company Secretary for more than seven years, which included the IPO of the Company in 2009. Cameron has over 23 years of finance and operational experience and is a Non Executive Director at iCarAsia Limited. Cameron holds a degree in Economics from La Trobe University, Melbourne, is a graduate of the General Management Program at Harvard Business School and is a Certified Practising Accountant (CPA).

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**Ajay Bhatia**

Chief Product and Information Officer

Ajay is currently the Chief Product and Information Officer of carsales.com Ltd. In his current role, Ajay is responsible for all aspects of product management, software development, infrastructure, IT operations and various support functions at carsales.com Ltd. Additionally, Ajay is responsible for strategic oversight of several non-car businesses such as boats, bikes, trucks, caravans and more. Ajay has over 13 years of experience in pure digital businesses. During this time he has held several technical and commercial leadership positions ranging from GM Commercial, Product Director and Technology Director to CIO. Ajay holds a Bachelor's degree in Engineering from University of Technology, Sydney, and a Masters in Management from the same university. Ajay was awarded Australian CIO of the year for 2015 by *CEO Magazine*.

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**Anthony Saines**

Director – Media and OEM

Anthony holds an MBA (Strategic Marketing) and since moving to Australia in 1998 has held a number of senior roles in the online advertising industry. Anthony is a current Board member of the Interactive Advertising Bureau (IAB), the peak trade association for online advertising in Australia, and his career includes Senior Executive positions at Sensis, DoubleClick, BMC Media and a Board position at Adstream Pty Ltd.



**Paul Barlow**

Director – International

Paul joined carsales in 2009 and is responsible for carsales' international acquisition, growth and operations strategy including representing carsales as a Director of Webmotors, SoloAutos, Chileautos and tyresales.com.au. Paul has been involved in providing technology solutions to the automotive industry since 1988 and online classifieds since 1997 with Reynolds & Reynolds (Pentana Solutions) before founding Digital Motorworks (acquired by ADP Dealer Services). Paul has a Masters in Business Systems from Monash University.



**Chris Polites**

Director – Dealer

Chris has been working in the online automotive space since 2002. He was responsible for setting up eBay Motors, and has held a variety of senior roles at Peugeot, Ford Performance Vehicles and Google prior to joining carsales as Director, Dealer. Chris holds a Bachelor of Economics from University of Sydney and an MBA from UNSW.

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# BOARD AND MANAGEMENT

## Meetings of Directors

	Full meetings of Directors		Audit and Risk Management		Remuneration and Nomination	
	A	B	A	B	A	B
Jeffrey Browne (Board Chair)	13	14	**	**	3	3
Wal Pisciotta	13	14	**	**	**	**
Greg Roebuck	14	14	**	**	**	**
Richard Collins	12	14	3	4	**	**
Pat O'Sullivan (Chair – Audit and Risk Management)	13	14	4	4	3	3
Kim Anderson (Chair – Remuneration and Nomination)	13	14	3	4	3	3
Steve Kloss (Alternate Director)	11	14	**	**	**	**
Edwina Gilbert	2	2	**	**	**	**

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.



## Committee membership

The following Directors have been members of Board committees for the full financial year unless otherwise stated below:

### Remuneration and Nomination Committee

Ms Kim Anderson – Committee Chair (independent) (appointed 27 August 2015)

Mr Jeffrey Browne (independent) (resigned as Committee Chair 27 August 2015)

Mr Pat O'Sullivan (independent)

Mr Wal Pisciotta (resigned from committee 27 August 2015)

### Audit and Risk Management Committee

Mr Pat O'Sullivan – Committee Chair (independent)

Mr Richard Collins (independent)

Ms Kim Anderson (independent)



# REMUNERATION REPORT

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The Remuneration Report is set out under the following main headings:

1. Remuneration Principles
2. Company Financial Performance
3. Remuneration Snapshot
4. Remuneration Outcomes
5. Non Executive Directors' Remuneration

The Board has established a Remuneration and Nomination Committee, which provides advice on remuneration, incentive policies and practices, as well as specific recommendations on remuneration packages and other terms of employment for the Managing Director, Senior Executives and Non Executive Directors (Key Management Personnel).

The term 'Senior Executives' refers to the Managing Director and those executives with responsibility and authority for planning, directing and controlling the activities of the Company, namely:

Greg Roebuck	Managing Director
Cameron McIntyre	Chief Operating Officer
Ajay Bhatia	Chief Product and Information Officer
Anthony Saines	Director – Media and OEM
Paul Barlow	Director – International
Chris Polites	Director – Dealer

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

## 1. Remuneration principles

### 1.1 Principles used to determine the nature and amount of remuneration

The objective of the Company's executive remuneration framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive remuneration with the achievement of strategic objectives, the creation of value for shareholders and aligns with market practice for delivery of reward.

The Board ensures that the executive remuneration framework satisfies the following key criteria for good remuneration governance practices:

*Alignment to shareholders' interests:*

- Has economic profit as a core component of plan design.
- Focuses on sustained growth in shareholder return, consisting of dividends, growth in share price, constant return on assets as well as focuses on key non-financial drivers of value such as innovation and culture.
- Attracts and retains high calibre executives.
- Transparency.

*Alignment to participants' interests:*

- Rewards capability and experience.
- Reflects competitive remuneration for contribution to growth in shareholder wealth.
- Provides a clear structure and goals for earning remuneration.
- Provides recognition for contribution to operational performance.

### 1.2 Executive remuneration

The Senior Executive remuneration framework has five components:

- Cash salary and superannuation
- Short Term Incentives
- Deferred Short Term Incentives
- Long Term Incentives
- Other benefits

The governance of executive remuneration is a core focus of the Remuneration and Nomination Committee, which ensures that remuneration outcomes for our Senior Executives continue to align with Company performance.

So that the Remuneration and Nomination Committee is fully informed of market best practices, trends, regulatory developments and shareholder views, the Company engaged Guerdon Associates to conduct a number of remuneration reviews during the financial year including:

- a review and benchmarking of the remuneration of the Managing Director and the fees paid to the Chair of the Board;
- a review and benchmarking of the Company's Long Term Incentive (LTI) program; and
- a review and assessment of alternative incentive programs that are currently being used in the market.

Guerdon was engaged by and reported directly to the Chair of the Remuneration and Nomination Committee. The report prepared by Guerdon was provided directly to the Chair of the Remuneration and Nomination Committee. The report was an input into the Remuneration Committee's decision-making process and was considered along with other factors.

The fee paid to Guerdon for the remuneration review work conducted was \$40,480.

#### Peer benchmarking

To ensure the remuneration framework is market competitive and therefore most likely to ensure the retention of talent, the Company will from time to time benchmark remuneration structures against relevant peers.

The Company considers relevant peers to be ASX listed companies that are similar in size, structure and industry to that of carsales.

The Company accepts that while this peer group is small, it is the most relevant group from which talent competition arises.

#### Cash salary and superannuation

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

Senior Executives are offered a competitive cash salary and superannuation package. Each Senior Executive's package is reviewed annually, or subsequent to promotion, by the Remuneration and Nomination Committee to ensure the Senior Executive's pay is competitive within the market and in line with Company policies.

There is no guaranteed cash salary and superannuation increase included in any Senior Executive's contract.

Statutory retirement benefits are provided via contributions to approved superannuation funds. Under current legislation carsales permits superannuation choice for all employees. The Company default superannuation fund is held with MLC.

#### Short Term Incentives

Short Term Incentives (STIs) are paid to Senior Executives in the form of an annual cash payment on the achievement of objectives as described below. The size of the STI opportunity available to each Senior Executive is based on their accountabilities and impact of the role on the organisation or business unit(s) that they lead.

The Remuneration and Nomination Committee annually considers 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 an STI.

The Remuneration and Nomination Committee is responsible for assessing whether the KPIs are met and whether or not STIs will be paid. The STI 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 Remuneration and Nomination Committee may also make recommendations to the Board for discretionary STI payments in rare circumstances where a Senior Executive's performance warrants it.

Senior Executives that leave during the financial year may be paid a portion of their STI at the Board's discretion. In the case of a good leaver the Board may grant a pro-rata share of their STI entitlements. Where a Senior Executive is a bad leaver and departs under adverse circumstances, no pro-rata share is granted.

#### Deferred Short Term Incentives

Deferred Short Term Incentives (DSTI) are paid to Senior Executives in the form of an annual award of performance rights on the achievement of determined objectives and are not exercisable for a further 12 months after the testing date.

# REMUNERATION REPORT CONTINUED

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The size of the DSTI opportunity available to each Senior Executive is determined by the accountabilities and impact of the Senior Executive's role in the Company.

The vesting of a DSTI award is linked to the achievement of an earnings per share (EPS) objective that is set each year by the Board. The EPS target value established takes into consideration both the annual budget earnings objectives and market determined consensus earnings expectations.

## Long Term Incentives

Long Term Incentives (LTIs) are provided to eligible employees via the carsales.com Ltd Employee Option Plan, which was established via a prospectus lodged with ASIC in 2000. Upon recommendation by the Remuneration and Nomination Committee, the Board determines who shall be eligible to participate in the plan.

The LTI awards are a combination of options and performance rights under this plan and are issued for no cash consideration. Options and performance rights are issued subject to vesting rules and expiry periods. Options and performance rights vest on fixed dates provided that employment has not been terminated, and when financial targets have been achieved. The financial targets are currently EPS based and have a three-year vesting period.

Options and performance rights issued to the Managing Director contain the same terms, conditions and performance targets as those issued to Senior Executives.

Since listing on the ASX in September 2009, the Board has reviewed a number of different incentive structures that align the terms and performance target methodologies with those of respected peers in our sector, as well as the interests of shareholders in ensuring management are incented to deliver high-performance outcomes over the long term.

The Company has selected EPS to be the most appropriate target on which to apply its LTI and DSTI programs. The rationale for this choice has historically been as a result of having only a small pool of relevant comparable peers, being other ASX listed online corporations.

The Board continues to believe that EPS is the most appropriate measure that best aligns the interest of shareholders with those of management. However, as noted below in section 1.3, from FY17 the Company will introduce changes to the LTI plan that take account of shareholder feedback. Senior Executives who leave the Company have 30 days from their date of departure to exercise any vested options they may be holding unless such departure is under adverse conditions. In exceptional circumstances, and at the Board's discretion, Senior Executives may be allowed to retain unvested options and performance rights and exercise them in a future period when they vest.

## Other benefits

Senior Executives receive salary continuance insurance cover that is also provided to all other carsales employees. The policy is held with OnePath Life Ltd, but is not allocated on an individual employee basis.

In addition, the Managing Director was provided with a paid travel benefit during the year that includes the cost of FBT.

## 1.3 Looking forward

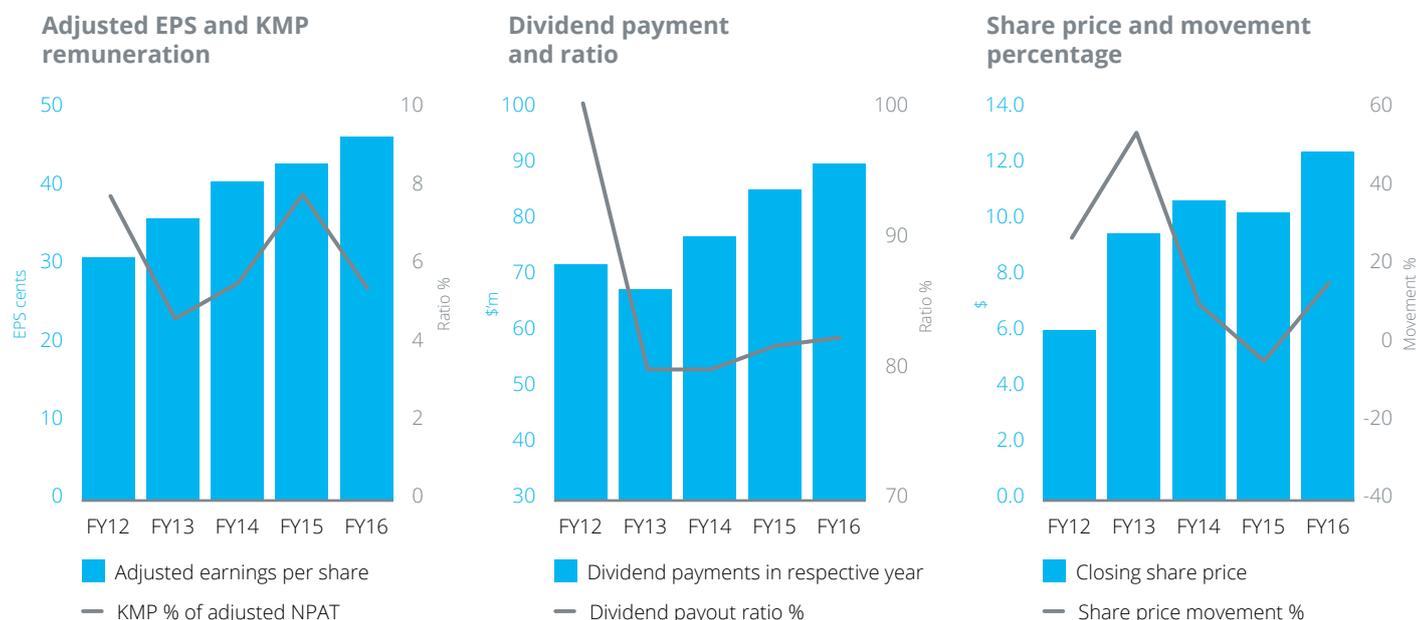
The Company does not anticipate any considerable changes to its remuneration approach for Senior Executives for FY17. However, as a result of shareholder feedback, the remuneration review conducted by Guerdon, and the Board's desire to add further balance to the LTI plan, the Company will implement changes to the LTI program effective from FY17. Any modifications to the plan will be outlined to shareholders in the Notice of Meeting of the 2016 Annual General Meeting.

## 1.4 Non Executive Directors

Fees and payments to Non Executive Directors are determined by the demands that are made on their time, as well as their responsibilities. Non Executive Directors receive fixed, rather than variable, pay.

## 2. Company financial performance

The graphs below demonstrate carsales' financial performance over the past five years along with how that performance has translated to shareholders in the form of earnings per share (EPS), share price performance and to Key Management Personnel (KMP) total remuneration shown as a percentage of adjusted profit for the year.



Dividend payment for FY12 includes a special dividend of 6.0 cents per share (\$14,021,000).

Dividend payment for FY15 includes a special dividend of 1.4 cents per share (\$3,361,000).

## 3. Remuneration snapshot

### 3.1 Cash based benefits that were realised in FY16

As a general principle, Australian Accounting Standards require the value of share based payments to be calculated at the time of grant and accrued over the performance restriction period. The Corporations Act and Australian Accounting Standards also require that pay and benefits be disclosed for the period that a person is a Senior Executive. This may not reflect what Senior Executives received or became entitled to during the financial year.

The figures in the tables below have not been prepared in accordance with the Australian Accounting Standards. They provide additional disclosures to those outlined in section 3.2 (which provides a breakdown of Senior Executive remuneration in accordance with statutory requirements and Australian Accounting Standards) and may therefore be different.

The tables below are designed to reflect value of benefits that have been actually received by the Non Executive Directors and Senior Executives in FY15 and FY16 rather than the value received on an accounting treatment basis.

Our approach to presenting the table below has been as follows:

- The amounts shown in the table include cash salary, superannuation, non-monetary benefits and STI payable in cash under the STI plan in respect of that year.
- The DSTI and LTI that has been earned as a result of performance in previous financial years but was subject to a restriction period that ended either in June or August 2016 (June or August 2015 for the FY15 financial year).
- The DSTI value in the table below reflects the net value of shares received by the Senior Executive. The net value is calculated as the quantity of shares received at the 30 June 2016 closing share price (30 June 2015 closing share price for the FY15 financial year).
- The LTI values in the table below reflect the net value of options and shares received by the Senior Executive. The net value is calculated as the quantity of shares and options received at the 30 June 2016 share price (30 June 2015 closing share price for the FY15 financial year), less the exercise cost of converting options to shares.
- The FY15 table is presented on the same basis as FY16 unless specified otherwise.

# REMUNERATION REPORT CONTINUED

2016

Name	Cash salary \$	Superannuation \$	Non- monetary benefits \$	STI payable as cash \$	Value of DSTI performance rights that became unrestricted \$	Value of LTI that became unrestricted \$	FY16 total \$
Jeffrey Browne	227,871	-	-	-	-	-	227,871
Richard Collins	197,503	18,763	-	-	-	-	216,266
Wal Pisciotta	129,538	-	-	-	-	-	129,538
Pat O'Sullivan	159,817	15,183	-	-	-	-	175,000
Kim Anderson	155,280	10,973	-	-	-	-	166,253
Edwina Gilbert	19,569	1,859	-	-	-	-	21,428
Steve Kloss (Alternate)	110,000	-	-	-	-	-	110,000
<b>Sub-total Non Executive Directors</b>	<b>999,578</b>	<b>46,778</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,046,356</b>
<b>Executive Director</b>							
Greg Roebuck	1,880,692	19,308	268,093	970,000	-	-	3,138,093
<b>Other Senior Executives</b>							
Cameron McIntyre	1,080,692	19,308	19,127	350,000	-	-	1,469,127
Ajay Bhatia	680,692	19,308	-	165,000	-	-	865,000
Anthony Saines	610,692	19,308	-	226,000	-	-	856,000
Paul Barlow	510,692	19,308	-	165,000	-	-	695,000
Chris Polites	480,692	19,308	-	200,000	-	-	700,000
<b>Total Key Management Personnel compensation (Group)</b>	<b>6,243,730</b>	<b>162,626</b>	<b>287,220</b>	<b>2,076,000</b>	<b>-</b>	<b>-</b>	<b>8,769,576</b>

2015

Name	Cash salary \$	Superannuation \$	Non- monetary benefits \$	STI payable as cash \$	Value of DSTI performance rights that became unrestricted \$	Value of LTI that became unrestricted \$	FY15 total \$
Jeffrey Browne	122,045	-	-	-	-	-	122,045
Richard Collins	182,172	17,306	-	-	-	-	199,478
Wal Pisciotta	175,804	-	-	-	-	-	175,804
Pat O'Sullivan	140,945	13,390	-	-	-	-	154,335
Kim Anderson	122,680	11,655	-	-	-	-	134,335
Steve Kloss (Alternate)	90,417	-	-	-	-	-	90,417
<b>Sub-total Non Executive Directors</b>	<b>834,063</b>	<b>42,351</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>876,414</b>
<b>Executive Director</b>							
Greg Roebuck	1,675,351	18,783	129,744	680,500	-	756,792	3,261,170
<b>Other Senior Executives</b>							
Cameron McIntyre	981,217	18,783	-	186,125	-	342,959	1,529,084
Ajay Bhatia	581,217	18,783	-	107,192	-	173,933	881,125
Anthony Saines	581,217	18,783	-	102,360	-	210,761	913,121
Paul Barlow	481,217	18,783	-	105,000	-	112,441	717,441
Chris Polites	365,217	18,783	-	107,850	-	86,963	578,813
<b>Total Key Management Personnel compensation (Group)</b>	<b>5,499,499</b>	<b>155,049</b>	<b>129,744</b>	<b>1,289,027</b>	<b>-</b>	<b>1,683,849</b>	<b>8,757,168</b>

### 3.2 Accounting based benefits

The tables below have been prepared in accordance with the requirements of the Corporations Act and relevant Australian Accounting Standards. The figures provided under the share based payments columns are based on accounting values and do not reflect actual cash amounts received by Senior Executives in FY16.

2016

	Short-term employee benefits			Deferred Short Term Incentive	Post employment benefits	Long-term benefits	Share-based payments*		Total
	Cash salary and fees	Cash bonus	Non-monetary benefits	Performance rights	Superannuation	Long service leave	Options	Performance rights	
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Non Executive Directors</b>									
Jeffrey Browne	227,871	-	-	-	-	-	-	-	227,871
Richard Collins	197,503	-	-	-	18,763	-	-	-	216,266
Wal Pisciotta	129,538	-	-	-	-	-	-	-	129,538
Pat O'Sullivan	159,817	-	-	-	15,183	-	-	-	175,000
Kim Anderson	155,280	-	-	-	10,973	-	-	-	166,253
Edwina Gilbert	19,569	-	-	-	1,859	-	-	-	21,428
Steve Kloss (Alternate)	110,000	-	-	-	-	-	-	-	110,000
<b>Sub-total Non Executive Directors</b>	<b>999,578</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>46,778</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,046,356</b>
<b>Executive Director</b>									
Greg Roebuck	1,880,692	970,000	268,093	-	19,308	52,149	(27,475)	92,700	3,255,467
<b>Other Senior Executives</b>									
Cameron McIntyre	1,080,692	350,000	19,127	-	19,308	15,413	9,581	56,567	1,550,688
Ajay Bhatia	680,692	165,000	-	-	19,308	28,690	5,625	29,847	929,162
Anthony Saines	610,692	226,000	-	-	19,308	19,531	5,574	31,769	912,874
Paul Barlow	510,692	165,000	-	-	19,308	14,938	4,033	18,776	732,747
Chris Polites	480,692	200,000	-	-	19,308	6,526	2,704	15,099	724,329
<b>Total Key Management Personnel compensation (Group)</b>	<b>6,243,730</b>	<b>2,076,000</b>	<b>287,220</b>	<b>-</b>	<b>162,626</b>	<b>137,247</b>	<b>41</b>	<b>244,759</b>	<b>9,151,623</b>

\* The negative share based payments reflect the reversal of the accounting provision for the FY16 Long Term Incentive award, which did not meet the minimum threshold required for performance rights and options to vest.

# REMUNERATION REPORT CONTINUED

2015	Short-term employee benefits		Deferred Short Term Incentive	Post employment benefits	Long-term benefits	Share-based payments		Total
	Cash salary and fees	Cash bonus	Performance rights	Superannuation	Long service leave	Options	Performance rights	
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Non Executive Directors</b>								
Jeffrey Browne	122,045	-	-	-	-	-	-	122,045
Richard Collins	182,172	-	-	-	17,306	-	-	199,478
Wal Pisciotta	175,804	-	-	-	-	-	-	175,804
Pat O'Sullivan	140,945	-	-	-	13,390	-	-	154,335
Kim Anderson	122,680	-	-	-	11,655	-	-	134,335
Steve Kloss (Alternate)	90,417	-	-	-	-	-	-	90,417
<b>Sub-total Non Executive Directors</b>	<b>834,063</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>42,351</b>	<b>-</b>	<b>-</b>	<b>876,414</b>
<b>Executive Director</b>								
Greg Roebuck	1,675,351	680,500	129,744	-	18,783	243,414	402,464	3,634,297
<b>Other Senior Executives</b>								
Cameron McIntyre	981,217	186,125	-	-	18,783	61,355	149,557	1,609,072
Ajay Bhatia	581,217	107,192	-	-	18,783	20,363	66,959	896,049
Anthony Saines	581,217	102,360	-	-	18,783	20,870	87,845	933,265
Paul Barlow	481,217	105,000	-	-	18,783	12,226	44,591	727,115
Chris Polites	365,217	107,850	-	-	18,783	5,069	5,339	554,806
<b>Total Key Management Personnel compensation (Group)</b>	<b>5,499,499</b>	<b>1,289,027</b>	<b>129,744</b>	<b>-</b>	<b>155,049</b>	<b>363,297</b>	<b>756,755</b>	<b>9,231,018</b>

## 4. Remuneration outcomes

### 4.1 Service conditions

All Senior Executives have service agreements determining cash salary, superannuation, performance based cash bonuses and participation in the Company Employee Option Plan. They have no fixed employment terms and no special termination payment conditions. All agreements provide for dismissal due to gross misconduct. The termination notice period is six months by either party and there is a six-month non-compete period.

All Senior Executives are entitled to participate in the STI, DSTI and LTI plans.

### 4.2 Salary

Cash salary and superannuation of Senior Executives for FY16 is set out below:

Name	Cash salary and superannuation
G Roebuck	\$1,900,000
C McIntyre	\$1,100,000
A Bhatia	\$700,000
A Saines	\$630,000
P Barlow	\$530,000
C Polites	\$500,000

Senior Executives received a salary increase on 1 July 2015.

In 2016, three Senior Executives were awarded an increase in cash salary and superannuation above 10% by the Board.

Ajay Bhatia's cash salary and superannuation increased by 20% in FY16 to more closely align his total remuneration to relevant industry peers and to reflect further increases in responsibilities.

Chris Polites' cash salary and superannuation increased by 30% to better reflect the breadth and accountability of his role and more closely align him with his peers.

Greg Roebuck's cash salary and superannuation increased by 11% to ensure his retention and align his remuneration with his most relevant industry peers.

### 4.3 STI payments (cash bonus) plan and outcomes

#### 4.3.1 STI plan structure

The KPIs linked to STI plans contain three major components and within each component are a series of objectives:

- **Financial performance (70% of on-target earnings value):** The financial objectives set against key financial targets relate to performance against Board-approved annual financial objectives of the Company. The targets set in this component of the plan will normally relate to the achievement against:

- (a) Company EBITDA; and
- (b) Company net profit after tax (NPAT).

This section of the plan also enables the Senior Executive to earn up to an additional 70% of on-target earnings for over achievement against each of the above mentioned objectives.

Financial objectives are always set ensuring that the Company is mindful of expected consensus earnings expectations.

- **Project delivery (20% of on-target earnings value):** The project objectives involve the execution of pre-determined project targets for which each Senior Executive is responsible. Projects may include the deployment of new products and technology, developing new markets or improving particular important performance metrics.

This section of the plan also enables the Senior Executive to earn up to an additional 20% of on-target earnings for over achievement against each of the above mentioned objectives.

- **People and culture (10% of on-target earnings value):** carsales is a business that prides itself on having a highly engaged and motivated workforce with a strong sense of values, culture and passion for what it does. The people and culture section of the plan is designed to ensure that Senior Executives are incented to nurture and build on these principles and values. Each Senior Executive has performance objectives to ensure there is ongoing development and enhancement of Company culture. The performance of this is measured through the annual employee engagement survey.

This section of the plan also enables the Senior Executive to earn up to an additional 10% of on-target earnings for over achievement against the above mentioned objective.

# REMUNERATION REPORT CONTINUED

## 4.3.2 STI plan outcomes

The Board has conducted an assessment of the performance of plan objectives and the information below describes each component of the plan's performance outcomes.

To protect the commercial sensitivity of each objective outcome the Company has used the following references and applied a relevant reference to the plan objective:

**Exceeded** – The actual objective outcome exceeded the target objective outcome.

**On target** – The actual objective outcome was equal to the target objective outcome.

**Partial achievement** – The actual objective outcome, while below the target objective outcome, was still high enough that some achievement was reported.

**Missed** – The actual objective outcome was materially below the target objective outcome.

### • Financial performance

– Company EBITDA – Exceeded

– Company NPAT – Partial achievement

• **Project delivery** – There were six projects that were part of this section of the STI plan, but due to commercial sensitivity each project objective is not outlined below only the status recorded against the overall project numbers:

– Three project objectives were – Exceeded

– Two project objectives were – On target

– One project objective was – Missed

### • People and culture

– Employee engagement – On target

The Board in assessing overall performance and achievement of the plan has exercised discretion where appropriate reflecting individuals contribution to the business during FY16.

2016	Actual STI payment		
	\$	% Paid	% Forfeited
G Roebuck	970,000	277	-
C McIntyre	350,000	233	-
A Bhatia	165,000	174	-
A Saines	226,000	141	-
P Barlow	165,000	127	-
C Polites	200,000	167	-

## 4.4 Deferred Short Term Incentives

The vesting of performance rights is subject to the achievement of a financial year ending 30 June 2016 earnings per share target (EPS) but only exercisable 12 months post that testing date.

The minimum and maximum EPS target for the performance rights to vest have been set by the Board. In considering the appropriate EPS target, the Board has used the historical earnings performance of the Company, forward looking market consensus earnings expectations and other internal forward looking plans as inputs for determining the appropriate objective.

Performance rights will not be capable of exercise if at the testing date the minimum targeted growth rate has not been achieved.

Under this scheme, 13,724 performance rights were issued to the Managing Director on 23 October 2015, with an exercise price of \$0.00. These performance rights were approved by shareholders at the AGM held on 23 October 2015.

In addition, 31,760 performance rights were issued to Senior Executives on 23 October 2015, with an exercise price of \$0.00.

Performance rights are capable of exercise if at the testing date the EPS target has been achieved or exceeded as follows:

- If the EPS achieved is equal to the minimum target, 70% of the performance rights will be capable of exercise.
- If the EPS achieved is between the minimum and maximum targets, vested performance rights will be capable of exercise on a pro-rata basis between 70% and 100%.
- If the EPS achieved is equal to or exceeds the maximum target, 100% of the performance rights will be capable of exercise.

The performance conditions applying to the performance rights are tested at 30 June 2016.

Subject to the performance conditions being satisfied, performance rights may be exercised after the Board releases the 2017 Annual Report to the ASX.

DSTI Grant	Vesting date	Minimum entitlement		Maximum entitlement		Actual achieved	
		% payable	EPS target (\$)	% payable	EPS target (\$)	% payable	EPS (\$)
Year ending 30 June 2016	August 17	70%	0.446	100%	0.469	80%	0.452

The exercise price of each option is fixed by the Board when the options and performance rights are issued. Amounts received on the exercise of options are recognised as share capital. The performance rights have a \$0.00 exercise price and are converted to shares when all vesting conditions have been met. The option price is based on a five-day volume weighted average price from June 30 of the corresponding financial year. Options and performance rights granted under the plan carry no dividend or voting rights until vested.

The actual EPS achieved for the DSTI grant vesting in August 2017 of \$0.452 per share is above the minimum entitlement requirement of \$0.446 per share. In calculating the achieved EPS of \$0.452 the Company included the earnings and related costs from all acquisitions that occurred up until 23 October 2015 and specifically excludes:

- PromisePay – Acquired 10.1% interest in May 2016; and
- Chileautos – Acquired 83.3% interest in March 2016.

The 2015 DSTI award was performance tested at 30 June 2015 and did not meet the minimum EPS target as set out in the 2015 Annual Report. This award would have vested immediately after the Board released the 2016 Annual Report to the ASX. The amounts payable under this award are as follows:

2016	\$	Actual DSTI payment		Forfeited \$
		Paid %	Forfeited %	
G Roebuck	-	-	100%	151,930
C McIntyre	-	-	100%	130,925
A Bhatia	-	-	100%	72,010
A Saines	-	-	100%	72,269
P Barlow	-	-	100%	43,206
C Polites	-	-	100%	35,999

## 4.5 Long Term Incentive Plan

### 4.5.1 Options and performance rights

EPS targets relating to Senior Executive options and performance rights, together with the Company's actual achievements are as follows:

LTI Grant	Vesting date	Minimum entitlement		Maximum entitlement		Actual achieved	
		% payable	EPS target (\$)	% payable	EPS target (\$)	% payable	EPS (\$)
Year ending 30 June 2014	August 16	50%	0.532	100%	0.560	0%	0.436

Minimum and maximum EPS targets for the options and performance rights were set for the period ending 30 June 2016 and approved by shareholders at the 2014 AGM on 25 October 2013.

EPS targets exclude any corporate activity associated with mergers and acquisitions, corporate or capital re-organisations that have occurred after 25 October 2013.

The actual EPS achieved for the LTI grant vesting in August 2016 of 0.436 per share is below the reported FY16 EPS of 0.454 per share. In calculating the achieved EPS of 0.436, the Company included the earnings and related costs from the following acquisitions that occurred prior to 25 October 2013:

- iCar Asia – Acquired 19.9% interest and announced March 2013; and
- Webmotors – Acquired 30% interest and announced April 2013.

2016	\$	Actual LTI payment		Forfeited \$
		Paid %	Forfeited %	
G Roebuck	-	-	100%	1,058,934
C McIntyre	-	-	100%	352,979
A Bhatia	-	-	100%	151,279
A Saines	-	-	100%	201,697
P Barlow	-	-	100%	100,848
C Polites	-	-	100%	83,198

# REMUNERATION REPORT CONTINUED

## 4.5.2 Unvested plan structure for FY15 and FY16 (Senior Executives)

The vesting of the plan is subject to the achievement of an EPS target with a testing date of 30 June in the relevant year and are exercisable after the Board releases the Annual Report to the ASX for that year.

The minimum and maximum EPS target for the options and performance rights have been set by the Board. In considering the appropriate EPS target, the Board has used the historical earnings performance of the Company, forward looking market consensus earnings expectations and other internal forward looking plans as inputs for determining the appropriate objective.

The minimum EPS target required for any of the awarded options and performance rights to vest is a target that will require the Company to achieve an EPS value that will reflect double digit compound annual growth rate (CAGR) in EPS between the baseline year and the testing year.

The Company will publish in its Annual Report the minimum and maximum EPS target that was applicable to the grant, along with the actual EPS achieved by the Company in that relevant year.

Options and performance rights will be capable of exercise at the relevant testing date if the EPS target for the relevant period has been achieved or exceeded as follows:

- if the EPS achieved is equal to the minimum target, 50% (FY15 award) of the vested options and performance rights will be capable of exercise; and
- if the EPS achieved is equal to the minimum target, 70% (FY16 award) of the vested options and performance rights will be capable of exercise; and
- if the EPS achieved is equal to or exceeds the maximum target, 100% of the vested options and performance rights will be capable of exercise; and
- if the EPS achieved is between the minimum and maximum targets, vested options and performance rights will be capable of exercise on a pro-rata basis between 50% and 100% (FY15 award) or between 70% and 100% (FY16 award).

The expiry date of these awards are five years from the grant date.

The following award details are outlined for all unvested grants.

	<b>Date</b>	<b>Number of options</b>	<b>Number of performance rights</b>	<b>Options \$</b>	<b>Performance rights \$</b>	<b>Vesting date</b>	<b>Financial year granted</b>
Managing Director	25/10/2013	134,213	50,874	9.10	0	August 16	FY14
Senior Executives	25/10/2013	112,802	42,758	9.10	0	August 16	FY14
Managing Director	24/10/2014	204,063	55,603	10.71	0	August 17	FY15
Senior Executives	24/10/2014	196,425	48,373	10.71	0	August 17	FY15
Managing Director	23/10/2015	226,269	74,609	10.24	0	August 18	FY16
Senior Executives	23/10/2015	250,015	49,552	10.24	0	August 18	FY16

## 4.6. Additional information

### 4.6.1 STI and DSTI payments (cash and performance rights) achievement against maximum entitlement

All Senior Executives received grants that were less than their maximum potential STI and DSTI entitlements. The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Name	Cash salary and superannuation		At risk – STI		At risk – DSTI		At risk – LTI	
	2016 %	2015 %	2016 %	2015 %	2016 %	2015 %	2016 %	2015 %
<b>Non Executive Directors</b>								
Jeffrey Browne	100	100	-	-	-	-	-	-
Richard Collins	100	100	-	-	-	-	-	-
Wal Pisciotta	100	100	-	-	-	-	-	-
Pat O'Sullivan	100	100	-	-	-	-	-	-
Kim Anderson	100	100	-	-	-	-	-	-
Edwina Gilbert	100	-	-	-	-	-	-	-
Steve Kloss (Alternate)	100	100	-	-	-	-	-	-
<b>Executive Director</b>								
Greg Roebuck	68	57	30	19	-	-	2	24
<b>Other Senior Executives</b>								
Cameron McIntyre	73	66	23	12	-	-	4	22
Ajay Bhatia	78	69	18	12	-	-	4	19
Anthony Saines	71	66	25	11	-	-	4	23
Paul Barlow	74	71	23	14	-	-	3	15
Chris Polites	70	67	28	18	-	-	2	15

### 4.6.2 Share based compensation disclosures

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

Grant date	Date exercisable	Expiry date	Exercise price \$	Value at grant date \$	% Vested	Performance achieved
October 2010	August 2013	October 2015	4.90	1.32	100	Yes
October 2010	August 2013	October 2015	4.90	1.44	100	Yes
October 2011	August 2013	October 2016	4.69	1.10	100	Yes
October 2011	August 2014	October 2016	4.69	1.19	100	Yes
October 2012	August 2014	October 2017	5.93	2.33	100	Yes
October 2012	August 2015	October 2017	5.93	2.43	75	Yes
October 2012	August 2015	October 2017	0.00	6.73	75	Yes
October 2013	August 2015	October 2018	0.00	10.58	100	Yes
October 2013	August 2016 <sup>1</sup>	October 2018	9.10	3.91	-	No
October 2013	August 2016 <sup>1</sup>	October 2018	0.00	10.32	-	No
October 2014	August 2016	October 2019	0.00	9.41	-	No
October 2014	August 2017	October 2019	10.71	2.36	n/a	To be determined
October 2014	August 2017	October 2019	0.00	9.12	n/a	To be determined
October 2015	August 2017	October 2020	0.00	8.74	n/a	To be determined <sup>2</sup>
October 2015	August 2018	October 2020	10.24	1.86	n/a	To be determined
October 2015	August 2018	October 2020	0.00	8.44	n/a	To be determined

1. Options and performance rights that are exercisable in August 2016 will not vest as a result of the Company not meeting the minimum EPS target that had been set.

2. Subject to satisfactory completion of the remaining service period, 80% of this award is expected to vest based on the performance achievements tested at 30 June 2016 as set out on page 37.

\$0.00 exercise price represents performance rights.

When exercisable, each option is convertible into one ordinary share upon payment of the exercise price by the option holder, provided that the option holder complies with the rules of the carsales.com Ltd Employee Option Plan. Performance rights will automatically be converted to one ordinary share upon the vesting date provided the holder complies with the rules of carsales.com Ltd Employee Option Plan.

# REMUNERATION REPORT CONTINUED

Options and performance rights not exercised expire at the earliest of (a) the expiry date applicable to the option or performance right, (b) 30 days post the employee ceasing to be employed by carsales.com Ltd (or their employment is terminated), (c) where EPS vesting conditions are not met at the relevant date, or (d) 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 and performance rights granted over ordinary shares in the Company provided as remuneration to each of the Senior Executives are set out below:

Name	Number of options granted during the year 2016	Number of performance rights granted during the year 2016	Value of options at grant date 2016 \$	Value of performance rights at grant date 2016 \$	Number of options and performance rights vested during the year 2016
<b>Executive Director</b>					
G Roebuck	226,269	88,333	420,001	750,000	126,355
<b>Senior Executives</b>					
C McIntyre	96,972	31,570	179,999	270,007	56,383
A Bhatia	44,176	14,343	81,999	122,999	28,513
A Saines	54,994	17,909	102,080	153,117	34,770
P Barlow	30,169	9,786	56,000	84,005	18,482
C Polites	23,704	7,704	43,999	65,996	14,256

Further information on the options and performance rights is set out in Note 24 to the financial statements.

#### 4.6.3 Shares provided on exercise of remuneration options and performance rights

Details of ordinary shares in the Company provided as a result of the exercise of options by each Senior Executive are set out below.

Name	Date of exercise of options and performance rights	Number of ordinary shares issued on exercise of options and performance rights during the year	Value at exercise date* \$
<b>Directors of carsales.com Ltd</b>			
G Roebuck	August 2015	39,221	393,959
<b>Senior Executives</b>			
C McIntyre	August 2015	19,695	197,369
	December 2015	36,688	175,002
A Bhatia	August 2015	10,169	101,867
	December 2015	18,344	90,986
A Saines	August 2015	11,840	118,709
	December 2015	22,930	103,644
P Barlow	August 2015	6,466	64,796
	December 2015	12,016	63,805
C Polites	August 2015	5,084	50,929
	September 2015	30,348	126,695

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

The amounts paid per ordinary share by each Senior Executive on the exercise of options and performance rights at the date of exercise were as follows:

<b>Exercise date</b>	<b>Amount paid per share</b>
	<b>\$</b>
August 2015	0.00
September 2015	5.93
September 2015	4.69
December 2015	5.93

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

#### 4.6.4 Share based compensation benefits

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

<b>Share based compensation benefits (options and performance rights)</b>							
<b>Name</b>	<b>Financial year granted</b>	<b>Vested %</b>	<b>Forfeited %</b>	<b>Financial years in which grant may vest</b>	<b>Minimum total value of grant yet to vest</b>	<b>Maximum total value of grant yet to vest</b>	<b>\$</b>
G Roebuck	2013	100	-		-	-	-
	2014	100	-		-	-	-
	2014	-	100	2016*	-	-	-
	2015	-	100	2016*	-	-	-
	2015	-	-	2017*	-	407,238	-
	2016	-	20	2017*	-	61,091	-
	2016	-	-	2018*	-	802,940	-
C McIntyre	2013	100	-		-	-	-
	2014	100	-		-	-	-
	2014	-	100	2016*	-	-	-
	2015	-	100	2016*	-	-	-
	2015	-	-	2017*	-	147,796	-
	2016	-	20	2017*	-	50,911	-
	2016	-	-	2018*	-	267,648	-
A Bhatia	2013	100	-		-	-	-
	2014	100	-		-	-	-
	2014	-	100	2016*	-	-	-
	2015	-	100	2016*	-	-	-
	2015	-	-	2017*	-	63,341	-
	2016	-	20	2017*	-	27,999	-
	2016	-	-	2018*	-	114,705	-
A Saines	2013	100	-		-	-	-
	2014	100	-		-	-	-
	2014	-	100	2016*	-	-	-
	2015	-	100	2016*	-	-	-
	2015	-	-	2017*	-	84,456	-
	2016	-	20	2017*	-	28,102	-
	2016	-	-	2018*	-	152,939	-

\* Vesting is contingent upon Board approval. Options are exercisable after the Board releases the results to ASX in August each year.

# REMUNERATION REPORT CONTINUED

## Share based compensation benefits (options and performance rights)

Name	Financial year granted	Vested %	Forfeited %	Financial years in which grant may vest	Minimum total value of grant yet to vest \$	Maximum total value of grant yet to vest \$
P Barlow	2013	100	-		-	-
	2014	100	-		-	-
	2014	-	100	2016*	-	-
	2015	-	100	2016*	-	-
	2015	-	-	2017*	-	42,227
	2016	-	20	2017*	-	20,365
	2016	-	-	2018*	-	76,473
C Polites	2013	100	-		-	-
	2014	100	-		-	-
	2014	-	100	2016*	-	-
	2015	-	100	2016*	-	-
	2015	-	-	2017*	-	34,837
	2016	-	20	2017*	-	14,000
	2016	-	-	2018*	-	63,084

\* Vesting is contingent upon Board approval. Options are exercisable after the Board releases the results to ASX in August each year.

### (i) Option holdings and performance rights

The numbers of options and performance rights 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.

### 2016

Name	Balance at start of the year	Granted as compensation (including performance rights)	Exercised	Forfeited	Balance at end of the year	Vested and exercisable	Unvested
<b>Non Executive Directors</b>							
J Browne	-	-	-	-	-	-	-
R Collins	-	-	-	-	-	-	-
W Pisciotta	-	-	-	-	-	-	-
P O'Sullivan	-	-	-	-	-	-	-
K Anderson	-	-	-	-	-	-	-
E Gilbert	-	-	-	-	-	-	-
S Kloss (Alternate)	-	-	-	-	-	-	-
<b>Managing Director</b>							
G Roebuck	664,927	314,602	(39,221)	(191,552)	748,756	168,621	580,135
<b>Other Senior Executives</b>							
C McIntyre	225,793	128,542	(56,383)	(67,169)	230,783	-	230,783
A Saines	131,368	72,903	(34,770)	(38,275)	131,226	-	131,226
A Bhatia	102,408	58,519	(28,513)	(29,451)	102,963	-	102,963
P Barlow	67,355	39,955	(18,482)	(19,633)	69,195	-	69,195
C Polites	75,781	31,408	(35,432)	(16,047)	55,710	-	55,710

## (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 Company, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2016	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
<b>Name</b>				
<b>Non Executive Directors</b>				
<b>Ordinary shares</b>				
J Browne	13,650	-	13,112	26,762
R Collins	1,003,276	-	(89,145)	914,131
W Pisciotta	14,770,700	-	(115,967)	14,654,733
P O'Sullivan	7,350	-	2,300	9,650
K Anderson	10,000	-	5,000	15,000
E Gilbert	0	-	25,000	25,000
S Kloss (Alternate)	2,774,500	-	-	2,774,500
<b>Executive Director</b>				
G Roebuck	4,852,681	39,221	-	4,891,902
<b>Other Senior Executives</b>				
<b>Ordinary shares</b>				
C McIntyre	366,019	56,383	(179,640)	242,762
A Saines	37,001	34,770	(44,856)	26,915
A Bhatia	3,000	28,513	(5,378)	26,135
P Barlow	63,264	18,482	(6,498)	75,248
C Polites	6,313	35,432	(17,312)	24,433

### 4.6.5 Other transactions with Key Management Personnel

#### (i) Directors of carsales.com Ltd

W Pisciotta and S Kloss (Alternate Director) are Directors and shareholders of Pentana Solutions Pty Ltd, which entered into a relationship agreement with carsales.com Ltd in 2010 for the supply of data and services. Under the contract, Pentana Solutions 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. This was re-signed with a two-year term from March 2015.

R Collins is a shareholder of automotive dealerships that 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.

E Gilbert is a Director of automotive dealerships that 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.

### 4.6.6 Shares under option and performance rights

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 options	Number under performance rights
Oct-2011	Oct-2016	\$4.69	36,257	-
Oct-2012	Oct-2017	\$5.93	216,720	-
Oct-2013	Oct-2018	\$9.10	81,596	-
Oct-2013	Oct-2018	\$0.00	-	30,926
Oct-2014	Oct-2019	\$10.71	638,459	-
Oct-2014	Oct-2019	\$0.00	-	205,770
Oct-2015	Oct-2020	\$10.24	862,520	-
Oct-2015	Oct-2020	\$0.00	-	255,189
			1,835,552	491,885

# REMUNERATION REPORT CONTINUED

No option or performance rights holder has any right under the options or performance rights to participate in any other share issue of the Company. No options or performance rights have been issued post 30 June 2016.

## 4.6.7 Shares issued on the exercise of options and performance rights

The following ordinary shares of carsales.com Ltd were issued during the year ended 30 June 2016 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 and performance rights exercised	Issue price of shares \$	Number of shares issued
August 2015	0.00	123,739
August 2015	4.69 – 5.93	61,237
September 2015	4.69 – 5.93	40,433
October 2015	0.00	50,146
October 2015	4.69 – 4.90	55,172
November 2015	5.93	11,301
December 2015	5.93	107,443
February 2016	4.69 – 5.93	12,860
March 2016	5.93	47,257
April 2016	4.69 – 5.93	13,923
May 2016	5.93	16,125
June 2016	4.69 – 5.93	26,854
		566,490

## 5. Non Executive Directors' remuneration

The current base remuneration pool was last approved by shareholders at the Annual General Meeting held on 23 October 2015.

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 \$1,500,000 per annum. The Directors determine how these are to be shared by the Directors.

The Board will from time to time invite a remuneration specialist to conduct a review and benchmarking of fees. The annualised fees paid to the Board are comfortably below the \$1,500,000 pool approved by shareholders.

The following fee table applies:

	\$
Chair fee	295,000
Deputy Chair fee	140,000
Base Director fee	120,000
Alternate Director fee	110,000
First Committee	25,000
Second Committee	30,000

## Other Directors' Report disclosures

### Directors

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

**Jeffrey Browne** Non Executive Chair – appointed position of Board Chair on 27 August 2015

**Greg Roebuck** Managing Director

**Wal Pisciotta** Non Executive Director – resigned position of Board Chair on 27 August 2015

**Richard Collins** Non Executive Deputy Chair

**Pat O'Sullivan** Non Executive Director

**Kim Anderson** Non Executive Director

**Edwina Gilbert** Non Executive Director – appointed 27 April 2016

**Steve Kloss** Alternate Non Executive Director

## Dividends – carsales.com Ltd

Dividends paid to members during the financial year were as follows:

	2016 \$'000	2015 \$'000
Final fully franked dividend for the year ended 30 June 2015 of 17.7 cents (2014: 17.4 cents) plus a special dividend 1.4 cents (2014: nil cents) per share paid on 15 October 2015.	45,898	41,472
Interim fully franked ordinary dividend for the year ended 30 June 2016 of 17.8 cents (2015: 16.2 cents) per share paid on 15 April 2016.	42,878	38,812
	<b>88,776</b>	<b>80,284</b>

At the end of the financial year the Directors have recommended the payment of a fully franked final ordinary dividend of \$47,019,000 (19.5 cents per share) to be paid on 17 October 2016 out of retained profits at 30 June 2016.

## Significant changes in the state of affairs

During the financial year the Company continued to expand into new geographic markets by investing in controlling stakes in SoloAutos in Mexico and Chileautos in Chile, both leading automotive classified businesses in their respective markets. Further details are set out in Note 20 to the financial statements.

## Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may affect:

- (a) the Group's operations in future financial years, or
- (b) the results of those operations in future financial years, or
- (c) the Group's state of affairs in future financial years.

## Insurance of officers

During the financial year, carsales.com Ltd paid a premium to insure the Directors and officers of the Company and its Australian-based controlled entities. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

## Indemnification of Directors and officers

All current Directors and officers are indemnified under a deed of indemnity, insurance and access.

## 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 (PwC) for 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 Management 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:

# REMUNERATION REPORT CONTINUED

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Other assurance services</b>		
<i>PwC Australian firm</i>		
Controls assurance services	-	25,028
Due diligence services	<b>224,566</b>	241,879
<b>Total remuneration for other assurance services</b>	<b>224,566</b>	266,907
<b>Taxation services</b>		
<i>PwC Australian firm</i>		
Tax compliance services	<b>143,350</b>	77,000
Tax consulting and tax advice on acquisitions	<b>88,124</b>	84,264
<b>Total remuneration for taxation services</b>	<b>231,474</b>	161,264
<b>Other advisory services</b>		
Other services	<b>88,472</b>	8,000
<b>Total remuneration for non-audit services</b>	<b>544,512</b>	436,171

## 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 47.

## Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, 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.

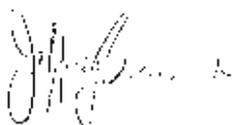
## Auditor

PwC continues in office in accordance with section 327 of the *Corporations Act 2001*.

## Corporate governance report

As allowed under the ASX Corporate Governance Principles and Recommendations (Third Edition) the Company has included its report on compliance with the principles in the year to 30 June 2016 in the Corporate Governance section of the Investor Centre on the carsales website. The full report can be found at the following URL: <http://shareholder.carsales.com.au/Investor-Centre/?page=Corporate-Governance>

This report is made in accordance with a resolution of Directors.



Jeffrey Browne  
Chair



Greg Roebuck  
Managing Director and CEO

Melbourne  
8 August 2016

# AUDITOR'S INDEPENDENCE DECLARATION



## Auditor's Independence Declaration

As lead auditor for the audit of carsales.com Ltd for the year ended 30 June 2016, 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 Ltd and the entities it controlled during the period.

  
Anton Linschoten  
Partner  
PricewaterhouseCoopers

Melbourne  
8 August 2016

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# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 \$'000	2015 \$'000
<b>Revenue from continuing operations</b>			
Sale of goods and services	2	344,010	311,756
<b>Revenue from continuing operations</b>		<b>344,010</b>	311,756
<b>Expenses</b>			
Costs of sale		(30,195)	(30,733)
Sales and marketing expenses		(97,691)	(84,607)
Operations and administration		(21,598)	(19,836)
Service development and maintenance		(24,216)	(22,242)
<b>Earnings before interest, taxes, depreciation and amortisation</b>		<b>170,310</b>	154,338
Depreciation and amortisation expense		(7,527)	(4,689)
Finance income	9	537	688
Finance costs	9	(8,903)	(9,204)
Share of net profit/(loss) from associates accounted for using the equity method	19(c)	5,223	4,926
Gain on associate dilution		955	3,447
Gain on sale of business	20(c)	931	-
<b>Profit before income tax</b>		<b>161,526</b>	149,506
Income tax expense	4	(47,450)	(42,339)
<b>Profit from continuing operations</b>		<b>114,076</b>	107,167
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translation of foreign operations		(1,374)	2,212
Share of remeasurement of net defined benefit liability of associates	11(a)	(333)	-
<b>Other comprehensive income for the year</b>		<b>(1,707)</b>	2,212
<b>Total comprehensive income for the year</b>		<b>112,369</b>	109,379
Profit is attributable to:			
Owners of carsales.com Ltd		109,249	103,167
Non-controlling interests		4,827	4,000
		<b>114,076</b>	107,167
Total comprehensive income for the year is attributable to:			
Owners of carsales.com Ltd		107,782	105,379
Non-controlling interests		4,587	4,000
		<b>112,369</b>	109,379
<b>Earnings per share-based on profit from continuing operations, attributable to the ordinary equity holders of the parent entity:</b>		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	6	45.4	43.2
Diluted earnings per share	6	45.3	42.9

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	Notes	2016 \$'000	2015 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	28,709	26,823
Trade and other receivables	14	44,722	39,176
Inventories		1,112	1,870
<b>Total current assets</b>		<b>74,543</b>	67,869
<b>Non-current assets</b>			
Investments accounted for using the equity method	19(c)	266,976	257,251
Property, plant and equipment	15	6,608	5,949
Deferred tax assets	4	6,078	5,171
Intangible assets	16	191,569	155,948
<b>Total non-current assets</b>		<b>471,231</b>	424,319
<b>Total assets</b>		<b>545,774</b>	492,188
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables	17	36,184	33,552
Borrowings	9	1,784	1,876
Current tax liabilities		6,633	2,237
Provisions	17	6,310	5,412
Deferred revenue		6,601	5,940
<b>Total current liabilities</b>		<b>57,512</b>	49,017
<b>Non-current liabilities</b>			
Borrowings	9	225,126	212,493
Deferred tax liabilities	4(d)	1,729	-
Provisions	17	1,037	1,165
<b>Total non-current liabilities</b>		<b>227,892</b>	213,658
<b>Total liabilities</b>		<b>285,404</b>	262,675
<b>Net assets</b>		<b>260,370</b>	229,513
<b>EQUITY</b>			
Contributed equity	10	99,026	91,905
Reserves	11(a)	22,862	21,471
Retained earnings	11(b)	134,302	113,829
Non-controlling interests		4,180	2,308
<b>Total equity</b>		<b>260,370</b>	229,513

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2016

Attributable to owners of carsales.com Ltd					
	Contributed equity \$'000	Other reserves \$'000	Retained earnings \$'000	Non- controlling interest \$'000	Total equity \$'000
Notes					
<b>Balance at 1 July 2014</b>	<b>77,603</b>	<b>17,695</b>	<b>90,946</b>	<b>1,132</b>	<b>187,376</b>
Profit for the year	-	-	103,167	4,000	107,167
Exchange differences on translation of foreign operations	-	2,212	-	-	2,212
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>2,212</b>	<b>103,167</b>	<b>4,000</b>	<b>109,379</b>
<b>Transactions with owners in their capacity as owners:</b>					
Contributions of equity upon exercise of employee share options	10(b) 5,252	-	-	-	5,252
Non-controlling interest on acquisition of subsidiaries	-	-	-	(1,119)	(1,119)
Dividends paid to members of the parent	12 9,050	-	(80,284)	-	(71,234)
Dividends paid to non-controlling interest	-	-	-	(1,705)	(1,705)
Increase in share-based payment reserve inclusive of tax	-	1,564	-	-	1,564
<b>Balance at 30 June 2015</b>	<b>91,905</b>	<b>21,471</b>	<b>113,829</b>	<b>2,308</b>	<b>229,513</b>
Profit for the year	-	-	109,249	4,827	114,076
Exchange differences on translation of foreign operations	-	(1,134)	-	(240)	(1,374)
Share of remeasurement of net defined benefit liability of associates	-	(333)	-	-	(333)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>(1,467)</b>	<b>109,249</b>	<b>4,587</b>	<b>112,369</b>
<b>Transactions with owners in their capacity as owners:</b>					
Contributions of equity upon exercise of employee share options	10(b) 2,173	-	-	-	2,173
Non-controlling interest on acquisition of subsidiaries	-	-	-	2,589	2,589
Dividends paid to members of the parent	12 4,948	-	(88,776)	-	(83,828)
Dividends paid to non-controlling interest	-	-	-	(5,304)	(5,304)
Increase in share-based payment reserve inclusive of tax	-	2,858	-	-	2,858
<b>Balance at 30 June 2016</b>	<b>99,026</b>	<b>22,862</b>	<b>134,302</b>	<b>4,180</b>	<b>260,370</b>

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 \$'000	2015 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (including GST)		376,501	338,458
Payments to suppliers and employees (including GST)		(210,458)	(185,770)
Income taxes paid		(43,437)	(50,879)
<b>Net cash inflow from operating activities</b>	5	<b>122,606</b>	101,809
<b>Cash flows from investing activities</b>			
Investment in subsidiaries (net of cash acquired)		(28,466)	(55,751)
Investment in associates		(10,743)	(10,042)
Payments for property, plant and equipment		(3,440)	(676)
Proceeds from sale of business		100	-
Dividends received from associates		5,649	4,153
Interest received		537	688
Payments for intangible assets		(881)	(1,065)
<b>Net cash (outflow) from investing activities</b>		<b>(37,244)</b>	(62,693)
<b>Cash flows from financing activities</b>			
Proceeds from issues of shares and other equity securities		2,173	5,252
Proceeds from borrowings		82,402	80,080
Repayment of borrowings		(70,423)	(41,035)
Interest paid		(8,496)	(8,843)
Dividends paid to non-controlling interests		(5,304)	(1,705)
Dividends paid to company shareholders	12	(83,828)	(71,234)
Loan arrangement fees paid		-	(850)
<b>Net cash (outflow) from financing activities</b>		<b>(83,476)</b>	(38,335)
<b>Net increase in cash and cash equivalents</b>		<b>1,886</b>	781
Cash and cash equivalents at the beginning of the financial year		26,823	26,042
<b>Cash and cash equivalents at end of year</b>	8	<b>28,709</b>	26,823

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## About this report

This Financial Report covers the consolidated financial statements of the consolidated entity consisting of carsales.com Ltd, its subsidiaries and investments in associates. 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 4, 449 Punt Road  
Richmond Vic 3121

A description of the nature of the consolidated entity's operations and its principal activities is included in the Chair's Report to shareholders on page 10, the Managing Director's Update on page 12, and in the Directors' Report on page 14, each of which are not part of this financial report.

The financial report was authorised for issue by the Directors on 8 August 2016. The Directors have the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely and complete. All press releases, financial reports and other information are available at our shareholder's centre on our website: [www.carsales.com.au](http://www.carsales.com.au)

For queries in relation to our reporting please call +61 (3) 9093 8600.

These financial statements have been streamlined where key information is grouped together for ease of understanding and readability. The notes include information that is required to understand the financial statements and is material and relevant to the operations, financial position and performance of the Group. Information is considered material and relevant if, for example:

- the amount in question is significant because of its size or nature;
- it is important for understanding the results of the Group;
- it helps to explain the impact of significant changes in the Group's business – for example, acquisitions; or
- it relates to an aspect of the Group's operations that is important to its future performance.

## Navigating this report

The notes are organised into the following sections:

- key performance: provides a breakdown of the key individual line items in the financial statements that the Directors consider most relevant to understanding performance and shareholder returns for the year and summarises the accounting policies, judgements and estimates relevant to understanding these line items;
- capital and financial risk management: provides information about the capital management practices of the Group, the Group's exposure and management of various financial risks and explains how these affect the Group's financial position and performance;
- other assets and liabilities: provides information on other balance sheet assets and liabilities that do not materially affect performance or give rise to material financial risk;
- group structure: explains aspects of the group structure, such as our portfolio of associate accounted investments and acquisitions and how these have affected the financial position and performance of the Group; and
- other: provides information on items that require disclosure to comply with Australian Accounting Standards and other regulatory pronouncements, however, are not considered critical in understanding the financial performance or position of the Group.

Significant and other accounting policies that summarise the measurement basis used and presentation policies and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### Key reporting highlights

Notes containing information relevant to understanding significant changes to the Group's affairs and performance in the current year are as follows:

- the Group recorded record revenue and EBITDA – Note 1;
- 65% of SoloAutos was acquired during the year – Note 20;
- 83.3% of Chileautos was acquired during the year – Note 20; and
- full year dividend declared – Note 12.

### Key estimates and judgements

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 set out below:

- goodwill impairment testing – Note 16(a); and
- valuation of share-based payments – Note 24.

### 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*. carsales.com Ltd is a for-profit entity for the purpose of preparing the financial statements.

#### (i) 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).

#### (ii) Historical cost convention

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

#### (iii) Financial statement presentation

The accounting policies adopted are consistent with those of the previous financial year unless otherwise stated.

#### (iv) Going concern

The financial statements have been prepared on a going concern basis.

### Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of carsales.com Ltd ('Company' or 'parent entity') as at 30 June 2016 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.

## 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 consolidated statement of comprehensive income.

### (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 consolidated statement of financial position presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each consolidated statement of comprehensive income 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 consolidated statement of comprehensive income 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.

## 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 tax authority is included with other receivables or payables in the consolidated statement of financial position.

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

## Rounding of amounts

The Company is of a kind referred to in ASIC Corporations Instrument 2016/191, 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 Instrument to the nearest thousand dollars or, in certain cases, the nearest dollar.

## New Accounting Standards and Interpretations

There are no new Accounting Standards and Interpretations that are mandatory for 30 June 2016 reporting periods adopted by the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### Key performance

#### 1. Segment information

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 Managing Director.

Management has determined the operating segments based on the reports reviewed by Key Management Personnel that are used to make strategic decisions.

##### (a) Description of segments

The Group principally operates in four business segments: namely Online Advertising Services, Data and Research Services, International, and Finance and Related Services.

##### Online Advertising Services

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

Classified advertising allows customers (including dealers and consumers) to advertise automotive and non-automotive goods and services for sale across the carsales Network. Classified advertising typically allows a customer to advertise their red brand X, model Y car with 20,000km for \$10,000 on a carsales website. This segment includes services such as subscriptions, lead fees and priority placement services across automotive and non-automotive websites.

Display advertising typically involves corporate customers such as automotive manufacturers/importers, finance and insurance companies etc, placing advertisements on carsales Network websites. 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, as banner advertisements or other sponsored links.

Online advertising includes carsales' investment in tyresales.com.au, which is an online tyre advertisement website that allows consumers to transact and purchase tyres.

##### Data and Research Services

The carsales.com Ltd divisions of RedBook, LiveMarket, DataMotive and DataMotive Business Intelligence 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. This segment also includes display and consumer advertising related to these divisions.

##### International

carsales.com Ltd has operations in overseas countries through both subsidiaries and equity accounted associate investments as set out below:

Automotive data services:

- Auto Information Limited (New Zealand) – 100%
- RedBook Automotive Services (M) Sdn Bhd (Malaysia) – 100%
- RedBook Automotive Data Services (Beijing) Limited (China) – 100%
- Automotive Data Services (Thailand) Company Limited – 100%

Online automotive classifieds:

- Webmotors S.A. (operation in Brazil) – 30%
- iCar Asia Limited (operations in Indonesia, Malaysia and Thailand) – 20.2%
- SK ENCARSALES.COM Ltd (operation in South Korea) – 49.9%
- carsales Mexico SAPI de CV (operation in Mexico) – 65%
- Chileautos SpA (operation in Chile) – 83.3%

## Finance and Related Services

Finance and Related Services includes the Stratton Finance Pty Ltd subsidiary that provides innovative vehicle finance arrangements, vehicle procurement and other related services to customers. Segment revenues arise from commissions paid by finance providers and other related service providers. It also includes the equity accounted associate RateSetter Australia Pty Ltd.

### (b) Segment analysis

	Online advertising services \$'000	Data and research services \$'000	International \$'000	Finance and related services \$'000	Total \$'000
<b>2016</b>					
<b>Segment revenue</b>					
Segment revenue (Note 1(c)(i))	240,699	35,850	4,434	63,027	344,010
<b>Total segment revenue</b>	<b>240,699</b>	<b>35,850</b>	<b>4,434</b>	<b>63,027</b>	<b>344,010</b>
<b>Gross profit</b>	<b>226,482</b>	<b>35,731</b>	<b>4,434</b>	<b>47,168</b>	<b>313,815</b>
<b>EBITDA</b>	<b>131,783</b>	<b>21,357</b>	<b>1,332</b>	<b>15,838</b>	<b>170,310</b>
Depreciation and amortisation					(7,527)
Net interest expense					(8,366)
Gain on sale of business	931				931
Profit before income tax					155,348
Income tax expense					(47,450)
Share of profit from associates			6,230	(1,007)	5,223
Gain on associate dilution			955		955
Non-controlling interests					(4,827)
<b>Profit for the year</b>					<b>109,249</b>
<b>Segment assets</b>	<b>104,845</b>	<b>17,344</b>	<b>276,579</b>	<b>74,922</b>	<b>473,690</b>
Deferred tax assets					6,078
Unallocated assets					66,006
<b>Total assets</b>					<b>545,774</b>
	Online advertising services \$'000	Data and research services \$'000	International \$'000	Finance and related services \$'000	Total \$'000
<b>2015</b>					
<b>Segment revenue</b>					
Segment revenue (Note 1(c)(i))	216,463	33,037	2,886	59,370	311,756
<b>Total segment revenue</b>	<b>216,463</b>	<b>33,037</b>	<b>2,886</b>	<b>59,370</b>	<b>311,756</b>
<b>Gross profit</b>	<b>207,588</b>	<b>32,864</b>	<b>2,878</b>	<b>36,599</b>	<b>279,929</b>
<b>EBITDA</b>	<b>122,067</b>	<b>19,041</b>	<b>1,579</b>	<b>11,651</b>	<b>154,338</b>
Depreciation and amortisation					(4,689)
Net interest expense					(8,516)
Profit before income tax					141,133
Income tax expense					(42,339)
Share of profit from associates			4,926		4,926
Gain on associate dilution			3,447		3,447
Non-controlling interests					(4,000)
<b>Profit for the year</b>					<b>103,167</b>
<b>Segment assets</b>	<b>99,724</b>	<b>18,321</b>	<b>247,024</b>	<b>71,361</b>	<b>436,430</b>
Deferred tax assets					5,171
Unallocated assets					50,587
<b>Total assets</b>					<b>492,188</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

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

#### (i) Segment revenue and gross profit

Segment revenue is derived from sales to external customers as set out in the table above. The nature of the segment revenue is as described in Note 1(a) above gross profit is revenue less costs of sale.

#### (ii) Segment EBITDA

The consolidated entity's chief 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 utilised across multiple segments. All unallocated assets are assessed by the chief operating decision maker at a consolidated entity level.

#### (iv) Liabilities

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

## 2. Revenue

	2016 \$'000	2015 \$'000
<b>From continuing operations</b>		
<i>Sales revenue</i>		
Sale of services	314,627	280,927
Sale of goods	29,383	30,829
	<b>344,010</b>	<b>311,756</b>

### Recognition and measurement

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 services have not been provided but the Group is obligated to provide the services in the future, revenue recognition is deferred. 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 net of sales commissions paid to the sales agency.

Revenue is recognised for the major business activities as follows:

#### (i) Advertising services

Revenue 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. Subscription services are recognised across the period to which they relate.

#### (ii) Sale of goods – retail

Revenue is recorded when goods have been provided to a customer leading to an enforceable claim by the Group.

#### (iii) Finance and related services

Fees and commissions are recognised on an accruals basis when the service has been provided or on completion of the underlying transaction. Used car disposal revenue and cost of goods are recognised gross (revenue being the fair value of the cash received for the sale of the vehicle, and the cost of goods being the trade in price of the vehicle).

#### (iv) Dividends

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

#### (v) R&D tax rebate

The R&D 10% tax rebate is recognised as other income.

### 3. Expenses

	2016 \$'000	2015 \$'000
<b>Profit before income tax includes the following specific expenses:</b>		
Total employee benefits	77,058	63,924
Defined contribution superannuation expense	6,034	4,992
Research and development	5,130	5,563
Minimum lease payments	5,534	4,645

#### Recognition and measurement

##### (i) 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.

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.

##### (ii) 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 an appropriate proportion of 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 an intangible asset 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 three to five years.

##### (iii) Leases

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. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

### 4. Income tax

#### (a) Income tax expense

	2016 \$'000	2015 \$'000
Current tax	47,698	41,275
Adjustments for current tax of prior periods	218	64
Deferred tax	(1,009)	1,000
Adjustments for deferred tax of prior periods	543	-
	47,450	42,339

Deferred income tax expense included in income tax expense comprises:

Decrease in deferred tax assets and deferred tax liabilities	(466)	1,000
	(466)	1,000

Current tax expense of \$644,000 (2015: \$50,000 income) has been directly recognised in equity, related to share-based payments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

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

	2016 \$'000	2015 \$'000
Profit from continuing operations before income tax expense	161,526	149,506
Tax at the Australian tax rate of 30.0% (2015 – 30.0%)	48,458	44,852
Tax effect of amounts that are not deductible (taxable) in calculating taxable income:		
Non-assessable income (R&D tax offset)	(255)	(150)
Share options	22	104
Sundry items	317	(20)
Adjustment for prior periods	761	64
Share of (profit)/losses from associates	(1,567)	(1,477)
Non-taxable gain on associate dilution	(286)	(1,034)
<b>Total income tax expense</b>	<b>47,450</b>	<b>42,339</b>

## (c) Deferred tax assets

The balance comprises temporary differences attributable to:

	Employee benefits \$'000	Employee Share Trust \$'000	Doubtful debts \$'000	Expense accruals \$'000	Intangibles \$'000	Other \$'000	Total \$'000
<b>At 1 July 2014</b>	1,017	3,855	313	731	-	-	5,916
Acquisition of subsidiary	170	-	-	135	-	-	305
(Charged)/credited to the profit or loss	757	(2,292)	(120)	655	-	-	(1,000)
Credited directly to equity	-	(50)	-	-	-	-	(50)
<b>At 30 June 2015</b>	<b>1,944</b>	<b>1,513</b>	<b>193</b>	<b>1,521</b>	<b>-</b>	<b>-</b>	<b>5,171</b>
Acquisition of subsidiary	7	-	-	-	-	-	7
(Charged)/credited to the profit or loss	194	(443)	371	235	(490)	389	256
Credited directly to equity	-	644	-	-	-	-	644
<b>At 30 June 2016</b>	<b>2,145</b>	<b>1,714</b>	<b>564</b>	<b>1,756</b>	<b>(490)</b>	<b>389</b>	<b>6,078</b>

	2016 \$'000	2015 \$'000
Deferred tax assets to be recovered within 12 months	4,184	3,771
Deferred tax assets to be recovered after more than 12 months	1,894	1,400
	<b>6,078</b>	<b>5,171</b>

## (d) Deferred tax liabilities

	Intangibles \$'000	Total \$'000
<b>At 1 July 2015</b>	-	-
Charged/(credited) to the profit or loss	210	210
Acquisition of subsidiary	(1,939)	(1,939)
<b>At 30 June 2016</b>	<b>(1,729)</b>	<b>(1,729)</b>

#### (d) Deferred tax liabilities

	2016 \$'000	2015 \$'000
Deferred tax liabilities expected to be settled within 12 months	(210)	-
Deferred tax liabilities expected to be settled after more than 12 months	(1,519)	-
	(1,729)	-

#### Recognition and measurement

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 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 standalone 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

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

	2016 \$'000	2015 \$'000
Profit for the year	114,076	107,167
Depreciation and amortisation	7,527	4,689
Non-cash employee benefits expense – share-based payments	2,214	1,614
Net finance related costs	8,893	8,516
Share of (profit) of associates	(5,223)	(4,926)
Gain on associate dilution	(955)	(3,447)
Net exchange differences	(96)	164
Change in operating assets and liabilities:		
(Increase)/Decrease in trade debtors	(4,955)	2,725
Decrease in inventory	758	-
(Increase)/Decrease in deferred tax assets	(900)	1,050
(Increase) in other operating assets	(2,612)	(5,426)
Increase/(Decrease) in trade creditors	1,544	(574)
(Decrease)/Increase in other operating liabilities	(3,096)	338
Increase/(Decrease) in provision for income taxes payable	4,686	(11,109)
Increase in other provisions	745	1,028
Net cash inflow from operating activities	122,606	101,809

### 6. Earnings per share

#### (a) Reported earnings per share

	Basic earnings per share		Diluted earnings per share	
	2016	2015	2016	2015
Reported profit attributable to equity holders of the Company	109,249,000	103,167,000	109,249,000	103,167,000
Weighted average number of ordinary shares <sup>1</sup>	240,645,736	238,911,085	240,645,736	238,911,085
Dilutive impact of potential ordinary shares	-	-	742,315	1,530,744
Total weighted average number of ordinary shares used in EPS calculation	240,645,736	238,911,085	241,388,051	240,441,829
Reported earnings per share	45.4	43.2	45.3	42.9

1. The dilutive impact of potential ordinary shares represents unexercised options and performance rights as at the balance date 30 June 2016 (2015: 30 June 2015).

#### (b) Adjusted earnings per share

	Basic earnings per share		Diluted earnings per share	
	2016	2015	2016	2015
Reported profit attributable to equity holders of the Company	109,249,000	103,167,000	109,249,000	103,167,000
Less: gain on associate dilution	(955,000)	(3,447,000)	(955,000)	(3,447,000)
Less: gain on sale of business	(931,000)	-	(931,000)	-
Add: acquired intangibles amortisation	3,180,000	2,060,000	3,180,000	2,060,000
Adjusted profit attributable to equity holders of the Company	110,543,000	101,780,000	110,543,000	101,780,000
Adjusted earnings per share <sup>2</sup>	45.9	42.6	45.8	42.3

2. The Directors believe the presentation of 'adjusted earnings per share' provides the best measure to assess the performance of the Group by excluding one-off gain from disposal of business, gain on associate dilution and non-cash acquired intangible assets amortisation from the reported IFRS measure.

#### Recognition and measurement

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.

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.

Options and performance rights 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 and performance rights have not been included in the determination of basic earnings per share. Details relating to the options are set out in Note 24.

## Capital and financial risk management

### 7. Capital risk management

The Company's capital position at 30 June is as follows:

	2016 \$'000	2015 \$'000
Borrowings (Note 9)	226,910	214,369
Less: cash and cash equivalents (Note 8)	(28,709)	(26,823)
Net debt	198,201	187,546
Contributed equity (Note 10)	99,026	91,905
Reserves (Note 11(a))	22,862	21,471
Retained profits (Note 11(b))	134,302	113,829
Non-controlling interests	4,180	2,308
Total equity	260,370	229,513
Total capital	458,571	417,059

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it 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 Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors its capital on an ongoing basis.

There are no externally imposed capital requirements.

### 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.

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 trade and other receivables (Note 14) and receivables in the consolidated statement of financial position.

### 8. Cash and cash equivalents

	2016 \$'000	2015 \$'000
Cash on hand	7	7
Bank balances	28,702	26,816
	28,709	26,823

### Recognition and measurement

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 that are subject to an insignificant risk of changes in value and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the consolidated statement of financial position.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## (a) Risk exposure

The Company's exposure to interest rate risk is discussed in Note 9. 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 on hand

Cash on hand is non-interest bearing. Bank balances attracted interest at an average rate of 2.0% (2015: 2.7%).

## 9. Borrowings

	2016 \$'000	2015 \$'000
Bank loan – current	1,784	1,876
Bank loan – non-current	225,126	212,493
	<b>226,910</b>	<b>214,369</b>

The Group's principal funding is a \$325m rolling syndicated banking facility entered into in February 2015 with tranches maturing at two, three and five years. Borrowings are net of establishment fees of \$1.3m.

	2016 \$'000	2015 \$'000
Finance income	537	688
Finance costs	(8,903)	(9,204)
	<b>(8,366)</b>	<b>(8,516)</b>

### Finance income

Finance income is recognised on a time proportionate basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amounts 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 finance income. Finance income on impaired loans is recognised using the original effective interest rate.

### Recognition and measurement

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 profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised net against the loan and amortised on a straight-line basis over the term of the facility.

Borrowings are derecognised from the consolidated statement of financial position 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.

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.

### Interest rate risk

The Group's main interest rate risk arises from long-term borrowings. The Group's fixed rate borrowings and receivables are carried at amortised cost. They are therefore not subject to interest rate risk as defined in AASB 7 since neither the carrying amount nor the future cash flows will fluctuate because of a change in market rates.

The consolidated entity's exposure to the cash flow 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 1.7% (2015: 1.9%), while the interest on the overdraft facility was 8.9% (2015: 9.1%). As at reporting date, the Group had \$227,379,000 (2015: \$215,219,000) variable rate borrowings at a weighted average interest rate of 3.3% (2015: 3.5%). carsales.com Ltd has a Board-approved treasury policy and treasury strategy for the management of interest rate risk. The Company does not currently hedge against interest rate risk. The Board keeps the decision to actively hedge interest rate risk under regular review and this will be reassessed during the 2017 financial year. Any derivative contracts will be entered into solely for interest rate risk management and no speculative hedging is permitted under the policy.

## 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 Group had access to the following undrawn borrowing facilities at the end of the reporting period:

	2016 \$'000	2015 \$'000
<b>Floating rate</b>		
- Expiring within one year	63,000	3,000
- Expiring within one to five years	45,000	110,000
	<b>108,000</b>	<b>113,000</b>

## 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
<b>Group – at 30 June 2016</b>					
<b>Non-derivatives</b>					
Non-interest bearing payables	36,184	-	-	36,184	36,184
Variable rate borrowings	1,740	134,187	94,302	230,229	226,660
Fixed rate borrowings	116	88	63	267	250
Total non-derivatives	<b>38,040</b>	<b>134,275</b>	<b>94,365</b>	<b>266,680</b>	<b>263,094</b>
<b>Group – at 30 June 2015</b>					
<b>Non-derivatives</b>					
Non-interest bearing payables	33,552	-	-	33,552	33,552
Variable rate borrowings	1,859	1,852	222,780	226,491	214,137
Fixed rate borrowings	135	88	19	242	232
Total non-derivatives	<b>35,546</b>	<b>1,940</b>	<b>222,799</b>	<b>260,285</b>	<b>247,921</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### 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.

### Summarised sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk.

	Carrying amount \$'000	Interest rate risk			
		-100 bps Profit \$'000	Other equity \$'000	+100 bps Profit \$'000	Other equity \$'000
<b>At 30 June 2016</b>					
<b>Financial assets</b>					
Cash and cash equivalents	28,709	(307)	(307)	307	307
<b>Financial liabilities</b>					
Borrowings	(227,379)	2,292	2,292	(2,292)	(2,292)
<b>Total increase/(decrease)</b>		<b>1,985</b>	<b>1,985</b>	<b>(1,985)</b>	<b>(1,985)</b>

	Carrying amount \$'000	Interest rate risk			
		-100 bps Profit \$'000	Other equity \$'000	+100 bps Profit \$'000	Other equity \$'000
<b>At 30 June 2015</b>					
<b>Financial assets</b>					
Cash and cash equivalents	26,823	(188)	(188)	188	188
<b>Financial liabilities</b>					
Borrowings	(215,219)	1,506	1,506	(1,506)	(1,506)
<b>Total increase/(decrease)</b>		<b>1,318</b>	<b>1,318</b>	<b>(1,318)</b>	<b>(1,318)</b>

## 10. Contributed equity

### (a) Share capital

	Notes	2016 Shares	2015 Shares	2016 \$'000	2015 \$'000
<b>Ordinary shares</b>					
Fully paid	10(b)	241,123,298	240,081,596	99,026	91,905
		241,123,298	240,081,596	99,026	91,905

#### Recognition and measurement

Ordinary shares are classified as equity.

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.

Incremental costs directly attributable to the issue of new shares, options or performance rights 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 or performance rights for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

### (b) Movements in ordinary share capital

Date	Details	Number of shares	Issue price	\$'000
1 July 2014	Opening balance	237,828,965		77,603
August 2014	Exercise of employee options	337,408	\$3.89-\$5.93	1,669
August 2014	Exercise of employee performance rights	208,613	-	-
October 2014	Exercise of employee options	37,952	\$1.75-\$4.69	156
October 2014	Exercise of employee performance rights	52,379	-	-
October 2014	Dividend Reinvestment Plan	446,293	\$9.78	4,363
November 2014	Exercise of employee options	38,275	\$4.69-\$4.90	183
December 2014	Exercise of employee options	51,874	\$4.69-\$5.93	256
March 2015	Exercise of employee options	576,057	\$4.69-\$5.93	2,768
April 2015	Dividend Reinvestment Plan	459,864	\$10.19	4,687
May 2015	Exercise of employee options	5,172	\$4.69	24
June 2015	Exercise of employee options	38,744	\$4.69-\$5.93	196
30 June 2015	Balance	240,081,596		91,905

Date	Details	Number of shares	Issue price	\$'000
1 July 2015	Opening balance	240,081,596		91,905
August 2015	Exercise of employee options	61,237	\$4.69-\$5.93	333
August 2015	Exercise of employee performance rights	123,739	-	-
September 2015	Exercise of employee options	40,433	\$4.69-\$5.93	211
October 2015	Exercise of employee options	55,172	\$4.69-\$4.90	269
October 2015	Exercise of employee performance rights	50,146	-	-
October 2015	Dividend Reinvestment Plan	300,352	\$9.65	2,898
November 2015	Exercise of employee options	11,301	\$5.93	67
December 2015	Exercise of employee options	107,443	\$5.93	637
February 2016	Exercise of employee options	12,860	\$4.69-\$5.93	73
March 2016	Exercise of employee options	47,257	\$5.93	280
April 2016	Exercise of employee options	13,923	\$4.69-\$5.93	73
April 2016	Dividend Reinvestment Plan	174,860	\$11.72	2,050
May 2016	Exercise of employee options	16,125	\$5.93	96
June 2016	Exercise of employee options	26,854	\$4.69-\$5.93	134
30 June 2016	Balance	241,123,298		99,026

Information relating to the carsales.com Ltd Employee Option Plan, including details of options and performance rights issued, exercised and lapsed during the financial year and options and performance rights outstanding at the end of the financial year, is set out in Note 24.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### 11. Reserves and retained earnings

#### (a) Reserves

	2016 \$'000	2015 \$'000
Share-based payment reserve	23,157	20,299
Foreign currency translation reserve	38	1,172
Share of remeasurement of net defined benefit liability of associates	(333)	-
	<b>22,862</b>	<b>21,471</b>

#### (i) Share-based payment reserve

Balance 1 July	20,299	18,735
Option expense	2,214	1,614
Tax on Employee Share Trust charged to equity	644	(50)
Balance 30 June	<b>23,157</b>	<b>20,299</b>

The share-based payments reserve is used to recognise the fair value of options and performance rights issued but not exercised.

#### (ii) Foreign currency translation reserve

Balance 1 July	1,172	(1,040)
Currency translation differences arising during the year	(1,134)	2,212
Balance 30 June	<b>38</b>	<b>1,172</b>

Exchange differences arising on translation of the foreign operations are taken to the foreign currency translation reserve, as described in 'Basis of preparation' and accumulated within a separate reserve within equity. The reserve is recognised in profit and loss when the net investment is disposed of.

#### (iii) Share of remeasurement of net defined benefit liability of associates

Balance 1 July	-	-
Share of remeasurement of net defined benefit liability of associates	(333)	-
Balance 30 June	<b>(333)</b>	<b>-</b>

#### (b) Retained earnings

Movements in retained earnings were as follows:

Balance 1 July	113,829	90,946
Net profit for the year	109,249	103,167
Dividends	(88,776)	(80,284)
Balance 30 June	<b>134,302</b>	<b>113,829</b>

## 12. 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.

### (a) Ordinary shares

	2016 \$'000	2015 \$'000
Final fully franked cash dividend for the year ended 30 June 2015 of 17.7 cents (2014: 17.4 cents) per fully paid ordinary share plus a special dividend of 1.4 cents (2014: nil cents) paid on 15 October 2015.	43,000	37,109
Final fully franked dividend for the year ended 30 June 2015 of 17.7 cents (2014: 17.4 cents) plus a special dividend of 1.4 cents (2014: nil cents) – satisfied through the issuance of shares under the Dividend Reinvestment Plan.	2,898	4,363
	<b>45,898</b>	41,472
Interim ordinary dividend for the year ended 30 June 2016 of 17.8 cents (2015: 16.2 cents) per fully paid share paid on 15 April 2016 (2015: 15 April 2015). Fully franked (2015: fully franked) based on tax paid at 30%.	40,828	34,125
Interim ordinary dividend for the year ended 30 June 2016 of 17.8 cents (2015: 16.2 cents) per share – satisfied through issuance of shares under the Dividend Reinvestment Plan.	2,050	4,687
	<b>42,878</b>	38,812
Total dividends paid	<b>88,776</b>	80,284

### (b) Dividends not recognised at year end

	2016 \$'000	2015 \$'000
In addition to the above dividends, since year end, the Directors have recommended the payment of 19.5 cents per fully paid ordinary share (2015: final dividend 17.7 cents). In 2015 a special dividend of 1.4 cents per fully paid ordinary share fully franked based on tax paid at 30% was also paid. The aggregate amount of the declared dividend expected to be paid on 17 October 2016 out of retained earnings at 30 June 2016, but not recognised as a liability at year end, is	47,019	45,856

### (c) Franked dividends

	2016 \$'000	2015 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30.0% (2015: 30.0%)	42,176	34,428

The above amounts represent the balance of the franking account as at the end of the reporting period, 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.

### (d) Dividend Reinvestment Plan (DRP)

The carsales.com Ltd DRP will be maintained for the 2016 final dividend, offering shareholders the opportunity to acquire further ordinary shares in carsales. The DRP will not be offered at a discount and the price will be calculated using the daily volume weighted average sale price of carsales.com Ltd shares sold in the ordinary course of trading on the ASX during the five days after, but not including, the Record Date (22 September 2016). The last date for shareholders to nominate their participation in the DRP is 5:00pm (AEST) on 23 September 2016. Shares issued under the DRP will rank equally with carsales.com Ltd existing fully paid ordinary shares. Shareholders eligible to participate in the DRP are currently limited to those whose registered address on the carsales.com Ltd share registry is in Australia or New Zealand.

Eligible shareholders who wish to participate in the DRP can make their elections online at [www.computershare.com.au/easyupdate/CAR](http://www.computershare.com.au/easyupdate/CAR) or complete the DRP form, which will be sent to shareholders for completion and submission to Computershare Investor Services Pty Ltd (carsales share registry). Further information can be obtained from Computershare on 1300 850 505.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### 13. Financial risk management

The Group's activities expose it to a variety of financial risks: credit risk, interest rate risk and liquidity and foreign exchange 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.

Risk management is the responsibility of the Chief Financial Officer (CFO) and follows approved policies of the Board of Directors. The CFO identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units.

#### (a) Market risk

##### (i) Foreign exchange risk

Refer to Note 19(d) for exposure to foreign exchange risk.

##### (ii) Price risk

The Group is not exposed to significant equities price risk.

#### (b) 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 consolidated statement of financial position 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 14.

Credit risk also 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.

#### (c) Interest rate risk

Interest rate risk is set out in Note 9.

#### (d) Liquidity risk

Liquidity risk is set out in Note 9.

#### Fair value estimation

There are no financial assets or liabilities that are measured at fair value at 30 June 2016.

## Other assets and liabilities

### 14. Trade and other receivables

	Impaired receivables 2016 \$'000	Not impaired receivables 2016 \$'000	Total receivables 2016 \$'000	Provision 2016 \$'000	Carrying value 2016 \$'000	Carrying value 2015 \$'000
Current	201	34,324	34,525	201	34,324	26,753
1-3 months	62	1,861	1,923	62	1,861	5,267
3-6 months	1,254	738	1,992	1,254	738	596
Over 6 months	510	36	546	510	36	72
<b>Trade receivables</b>	<b>2,027</b>	<b>36,959</b>	<b>38,986</b>	<b>2,027</b>	<b>36,959</b>	<b>32,688</b>
Accrued income					1,948	2,819
Other receivables					2,657	386
Prepayments					3,158	3,283
<b>Trade and other receivables</b>					<b>44,722</b>	<b>39,176</b>

#### Recognition and measurement

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, data services or finance services.

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable 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 consolidated statement of comprehensive income within the 'operations and administration' expense. When a trade receivable for which an impairment allowance had been recognised becomes uncollectable 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 consolidated statement of comprehensive income.

#### (a) Impaired trade receivables

The individually impaired receivables mainly relate to customers that are in unexpectedly difficult economic situations. The creation and release of the provision for impaired receivables has been included in 'operations and administration' expenses in the consolidated statement of comprehensive income. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

#### (b) Accrued income

Services provided in the current reporting period are recognised on accrual basis. Settlement is generally within 30 days.

#### (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.

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.

#### (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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 15. Property, plant and equipment

	Plant and equipment \$'000	Motor vehicles \$'000	Leasehold impro- vements \$'000	Total \$'000
<b>At 30 June 2016</b>				
Cost	6,704	363	8,032	15,099
Accumulated depreciation	(4,949)	(154)	(3,388)	(8,491)
<b>Net book amount</b>	<b>1,755</b>	<b>209</b>	<b>4,644</b>	<b>6,608</b>
<b>At 30 June 2015</b>				
Cost	5,763	210	6,455	12,428
Accumulated depreciation	(3,955)	(95)	(2,429)	(6,479)
<b>Net book amount</b>	<b>1,808</b>	<b>115</b>	<b>4,026</b>	<b>5,949</b>

### Recognition and measurement

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 profit or loss 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 – 10 years
- Computer hardware and peripherals 3 – 5 years
- Leased plant and equipment 10 – 15 years or minimum lease period if shorter
- Leasehold improvements 3 – 10 years or minimum lease period if shorter

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.

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

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. 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 profit or loss 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.

## 16. Intangible assets

	Goodwill \$'000	Computer software \$'000	Brands and customer relationships \$'000	Other intangible assets <sup>1</sup> \$'000	Total \$'000
<b>At 1 July 2014</b>					
Cost	85,865	11,704	-	4,343	101,912
Accumulated amortisation and impairment	-	(6,671)	-	(2,972)	(9,643)
Net book amount	85,865	5,033	-	1,371	92,269
<b>Year ended 30 June 2015</b>					
Opening net book amount	85,865	5,033	-	1,371	92,269
Acquisition of subsidiaries	60,978	-	-	12	60,990
Additions	-	6,000	-	99	6,099
Amortisation charge	-	(2,828)	-	(582)	(3,410)
Closing net book amount	146,843	8,205	-	900	155,948
<b>At 30 June 2015</b>					
Cost	146,843	17,704	-	4,453	169,000
Accumulated amortisation and impairment	-	(9,499)	-	(3,553)	(13,052)
Net book amount	146,843	8,205	-	900	155,948
<b>Year ended 30 June 2016</b>					
Opening net book amount	146,843	8,205	-	900	155,948
Acquisition of subsidiaries	26,543	-	3,245	-	29,788
Additions	-	8,942	-	135	9,077
Disposals	-	(186)	-	-	(186)
Amortisation charge	-	(4,106)	(868)	(463)	(5,437)
Reclassifications to brand intangibles <sup>2</sup>	(4,524)	-	6,463	-	1,939
Exchange differences	895	-	(455)	-	440
Closing net book amount	169,757	12,855	8,385	572	191,569
<b>At 30 June 2016</b>					
Cost	169,757	26,438	9,253	4,588	210,036
Accumulated amortisation and impairment	-	(13,583)	(868)	(4,016)	(18,467)
Net book amount	169,757	12,855	8,385	572	191,569

1. Other intangible assets include database, domain names and other.

2. Reclassifications reflect the fair value adjustment of the brand and customer relationships intangibles acquired as part of business combinations. The reclassification from goodwill includes the net deferred tax effect of the brand intangibles being reclassified.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### Recognition and measurement

#### (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 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 1).

#### (ii) Computer software

Software includes capitalised development costs being an internally generated intangible asset.

Costs incurred in developing products or systems and costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems.

#### (iii) Brands and customer relationships

Acquired brands represent the value of brands in acquired subsidiaries and businesses that are separately fair valued at the date of acquisition from the remaining goodwill. Acquired brands are written off over a 10-year period.

Acquired customer relationships have a finite useful life and are carried at fair value at acquisition date less accumulated depreciation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the asset over its estimated useful life, which is between seven to 10 years.

#### (iv) Other intangible assets

RedBook database costs capitalised to date 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 on a straight line basis. The useful lives for these assets are as follows:

- Software 4 – 5 years
- Domain Names 5 – 10 years
- Database 10 years
- Brand intangibles 10 years
- Customer relationships 7 – 10 years

#### (a) Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to segment.

A segment-level summary of the goodwill allocation is presented below.

	<b>Total \$'000</b>
<b>2016</b>	
Online Advertising	70,715
Data and Research	15,823
Finance and Related Services	58,494
	<b>145,032</b>
– carsales Mexico SAPI de CV	4,778
– Chileautos SpA	19,947
International	24,725
	<b>169,757</b>
<b>2015</b>	
Online Advertising	70,715
Data and Research	15,823
Finance and Related Services	60,305
	<b>146,843</b>

## 16. Intangible assets (continued)

### Recognition and measurement

#### (i) Impairment

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).

#### (ii) Estimated impairment of goodwill

The Company tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in 'basis of preparation'. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions.

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.

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. 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.

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

The carrying value of the acquisition in Chile and Mexico are supported by the fair value less costs to sell valuation method given their recency. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on approved budgets.

CGU	Growth rate <sup>1</sup>		Discount rate <sup>2</sup>	
	2016 %	2015 %	2016 %	2015 %
Online Advertising	2.0	2.0	10.6	6.9
Data and Research	2.0	2.0	10.6	6.9
Finance and Related Services	2.5	2.5	10.6	6.9

1. Weighted average growth rate used to extrapolate cash flows beyond the budget period.

2. In performing the value-in-use calculations for each CGU, the Company has applied pre-tax discount rates to discount the forecast future attributable pre-tax cash flows.

#### (c) Impact of possible changes in key assumptions

Management does not consider that a reasonable change in any of the key assumptions would lead to impairment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 17. Payables and provisions

	2016 \$'000	2015 \$'000
<b>Payables</b>		
Trade payables	15,731	14,167
Accrued expenses	17,159	15,451
Other payables	3,294	3,934
<b>Total payables</b>	<b>36,184</b>	<b>33,552</b>
<b>Provisions</b>		
Employee benefits – current	6,310	5,412
Employee benefits – non-current	1,037	1,165
<b>Total employee benefits</b>	<b>7,347</b>	<b>6,577</b>

### Recognition and measurement

#### (i) Payables

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

#### (ii) 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.

#### (iii) Other long-term employee benefit obligations

The liability for long service leave and annual leave that is not expected to be settled within 12 months after the end of the period 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 high-quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

#### (iv) 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.

## 18. Commitments

### Non-cancellable operating leases

The Group leases offices in a number of locations. The most significant of these leases is the Melbourne head office where the lease is a non-cancellable operating lease expiring within five years. Upon renewal date, the Company has the option to renew the lease for a further two years at terms that are negotiable. The Group also leases various motor cars and printers under non-cancellable operating leases.

	2016 \$'000	2015 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	5,223	4,538
Later than one year but not later than five years	12,518	14,953
Later than five years	2,266	3,204
	<b>20,007</b>	<b>22,695</b>

### Bank guarantee facility

Guarantees in respect of bank facilities drawn down but not included in the accounts of the Group are \$3.2 million (2015: \$2.7 million).

## 19. Interests in other entities

### (a) Material subsidiaries

The Group's principal subsidiaries at 30 June 2016 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Name of entity	Place of business/ country of incorporation	Ownership interest held by the Group*		Ownership interest held by non-controlling interests		Principal activities
		2016	2015	2016	2015	
		%	%	%	%	
Webpointclassified Pty Ltd	Australia	100.0	100.0	-	-	(1)
Equipment Research Group Pty Ltd	Australia	100.0	100.0	-	-	(2)
Discount Vehicles Australia Pty Ltd	Australia	100.0	100.0	-	-	(1)
Automotive Data Services Pty Ltd	Australia	100.0	100.0	-	-	(2)
Auto Information Limited	New Zealand	100.0	100.0	-	-	(2)
RedBook Automotive Services (M) Sdn Bhd	Malaysia	100.0	100.0	-	-	(2)
RedBook Automotive Data Services (Beijing) Limited	China	100.0	100.0	-	-	(2)
Automotive Data Services (Thailand) Company Limited	Thailand	100.0	100.0	-	-	(2)
Tyresales Pty Ltd	Australia	50.0	50.0	50.0	50.0	(3)
Auto Exchange Holdings Pty Ltd	Australia	100.0	100.0	-	-	(4)
carsales.com Investments Pty Ltd	Australia	100.0	100.0	-	-	(4)
Automotive Exchange Pty Ltd	Australia	50.0	50.0	50.0	50.0	(1)
carsales Holdings Pty Ltd	Australia	100.0	100.0	-	-	(4)
carsales.com Ltd Employee Share Trust	Australia	100.0	100.0	-	-	(5)
carsales Finance Pty Ltd	Australia	100.0	100.0	-	-	(4)
Stratton Fleet Services Pty Ltd	Australia	50.1	50.1	49.9	49.9	(6)
Stratton Franchise Pty Ltd	Australia	50.1	50.1	49.9	49.9	(6)
Stratton Finance Pty Ltd	Australia	50.1	50.1	49.9	49.9	(6)
Stratton Marine And Outdoor Finance Pty Ltd	Australia	75.0	-	25.0	-	(6)
Auto Inspect Pty Ltd	Australia	50.1	50.1	49.9	49.9	(7)
carsales Latam Pty Ltd	Australia	100.0	-	-	-	(4)
carsales Mexico SAPI de CV	Mexico	65.0	-	35.0	-	(1)
carsales Chile SpA	Chile	100.0	-	-	-	(4)
Chileautos SpA	Chile	83.3	-	16.7	-	(1)
carsales Foundation Pty Ltd	Australia	100.0	-	-	-	(8)

\* The proportion of ownership interest is equal to the proportion of voting power held.

1. Classified advertising.
2. Data and research.
3. Online retail.
4. Holding company.
5. Share trust company.
6. Finance and related services.
7. Car inspection.
8. Trustee company.

### (i) Subsidiaries

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 Company (refer to Note 20).

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.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 19. Interests in other entities (continued)

### (ii) Employee Share Trust

The Group has formed a trust to administer the Group's employee share scheme. This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group.

### (b) Non-controlling interests (NCI)

Set out below is summarised financial information for each subsidiary that has non-controlling interests that are material to the Group. The amounts disclosed for each subsidiary are before intercompany eliminations.

	Tyresales \$'000	Auto Exchange \$'000	Stratton Finance \$'000	Auto Inspect \$'000	SoloAutos \$'000	Chileautos \$'000
<b>30 June 2016</b>						
<b>Summarised balance sheet</b>						
Current assets	2,050	2,602	10,530	1,068	3,933	1,250
Current liabilities	(2,051)	(553)	(15,792)	(754)	(32)	(101)
Non-current assets	285	173	18,905	196	4,598	4
Non-current liabilities	-	-	(5,425)	(119)	(785)	-
<b>Net assets</b>	<b>284</b>	<b>2,222</b>	<b>8,218</b>	<b>391</b>	<b>7,714</b>	<b>1,153</b>
<b>Accumulated NCI</b>	<b>(145)</b>	<b>336</b>	<b>1,566</b>	<b>195</b>	<b>2,036</b>	<b>192</b>

	Tyresales \$'000	Auto Exchange \$'000	Stratton Finance \$'000	Auto Inspect \$'000
<b>30 June 2015</b>				
<b>Summarised balance sheet</b>				
Current assets	1,780	4,190	13,316	75
Current liabilities	(1,873)	(2,038)	(15,654)	(63)
Non-current assets	287	214	10,518	36
Non-current liabilities	-	-	(3,058)	(52)
<b>Net assets</b>	<b>194</b>	<b>2,366</b>	<b>5,122</b>	<b>(4)</b>
<b>Accumulated NCI</b>	<b>(40)</b>	<b>407</b>	<b>1,943</b>	<b>(2)</b>

	Tyresales \$'000	Auto Exchange \$'000	Stratton Finance \$'000	Auto Inspect \$'000	SoloAutos \$'000	Chileautos \$'000
<b>30 June 2016</b>						
<b>Summarised statement of comprehensive income</b>						
Profit/(loss) for the period	(210)	557	8,470	1,114	(718)	346
Profit/(loss) allocated to NCI	(105)	278	4,290	556	(251)	59
Dividends paid to NCI	-	350	4,667	287	-	-

	Tyresales \$'000	Auto Exchange \$'000	Stratton Finance \$'000	Auto Inspect \$'000
<b>30 June 2015</b>				
<b>Summarised statement of comprehensive income</b>				
Profit/(loss) for the period	(360)	656	7,719	-
Profit/(loss) allocated to NCI	(180)	328	3,852	-
Dividends paid to NCI	-	-	1,705	-

30 June 2016	Tyresales \$'000	Auto Exchange \$'000	Stratton Finance \$'000	Auto Inspect \$'000	SoloAutos \$'000	Chileautos \$'000
<b>Summarised cash flows</b>						
Cash flows from operating activities	670	447	12,665	1,056	(722)	217
Cash flows from investing activities	(68)	(113)	(5,093)	(169)	17	-
Cash flows from financing activities	-	(700)	(7,806)	(789)	-	-
<b>Net increases/(decrease) in cash and cash equivalents</b>	<b>602</b>	<b>(366)</b>	<b>(234)</b>	<b>98</b>	<b>(705)</b>	<b>217</b>

30 June 2015	Tyresales \$'000	Auto Exchange \$'000	Stratton Finance \$'000	Auto Inspect \$'000
<b>Summarised cash flows</b>				
Cash flows from operating activities	340	820	10,892	-
Cash flows from investing activities	(138)	(127)	(8,548)	-
Cash flows from financing activities	-	-	239	-
<b>Net increases/(decrease) in cash and cash equivalents</b>	<b>202</b>	<b>693</b>	<b>2,583</b>	<b>-</b>

### (c) Interests in associates

Name of entity	Place of business/ country of incorporation	% of ownership interest		Nature of relationship	Measurement method
		2016 %	2015 %		
Webmotors S.A.	Brazil	30.0	30.0	Associate	Equity method
iCar Asia Limited	Australia	20.2	20.2	Associate	Equity method
SK ENCARSALES.COM Ltd	South Korea	49.9	49.9	Associate	Equity method
RateSetter Australia Pty Ltd	Australia	20.0	20.0	Associate	Equity method
PromisePay Pty Ltd	Australia	10.1	-	Associate	Equity method

### Total equity accounted investments

Name of entity	Quoted fair value		Carrying amount		Share of profit	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Webmotors S.A.	-	-	83,381	82,811	3,376	3,479
iCar Asia Limited	42,665	31,191	21,658	19,362	(2,456)	(3,289)
SK ENCARSALES.COM Ltd	-	-	145,710	144,851	5,309	4,736
RateSetter Australia Pty Ltd	-	-	9,237	10,227	(1,006)	-
PromisePay Pty Ltd	-	-	6,990	-	-	-
<b>Total equity accounted investments</b>	<b>42,665</b>	<b>31,191</b>	<b>266,976</b>	<b>257,251</b>	<b>5,223</b>	<b>4,926</b>

RateSetter and PromisePay are both equity accounted for as carsales exercises significant influence over these entities through the right to appoint a Director to the respective Boards.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### 19. Interests in other entities (continued)

#### (i) Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill identified on acquisition. Acquisition related costs of associates are capitalised.

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends received from associates are recognised as a reduction in the carrying amount of the investment.

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

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

#### (ii) Contingent liabilities in respect of associates

	2016 \$'000	2015 \$'000
<i>Contingent liabilities – associates</i>		
Contingent liabilities relating to liabilities of the associate for which the Company is severally liable	568	599

#### (iii) Summarised financial information for significant associates

	Webmotors S.A.		iCar Asia Limited <sup>1</sup>		SK ENCARSALES.COM Ltd	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
<b>Summarised balance sheet</b>						
Total current assets	95,996	91,063	14,489	8,504	25,042	20,592
Total non-current assets	15,166	13,181	26,811	27,083	3,978	3,842
Total current liabilities	(9,408)	(9,056)	(3,294)	(3,462)	(8,050)	(6,858)
Total non-current liabilities	-	-	(486)	(527)	(7,261)	(7,968)
<b>Net assets</b>	<b>101,754</b>	<b>95,188</b>	<b>37,520</b>	<b>31,598</b>	<b>13,709</b>	<b>9,608</b>
Group's share in %	30%	30%	20.2%	20.2%	49.9%	49.9%
Group's share in \$	30,526	28,556	7,579	6,383	6,841	4,794
Goodwill	44,518	45,183	14,079	12,979	123,186	122,705
Acquired intangibles	8,337	9,072	-	-	15,683	17,352
Carrying amount	83,381	82,811	21,658	19,362	145,710	144,851
<b>Reconciliation of carrying value</b>						
Opening carrying value	82,811	93,323	19,362	19,146	144,851	127,957
Investment in associate	-	15	3,797	1	-	314
Profit/(loss) for the period	3,922	3,878	(2,456)	(3,288)	7,064	6,210
Amortisation of intangibles	(546)	(400)	-	-	(1,755)	(1,474)
Gain on dilution	-	-	955	3,447	-	-
Other comprehensive income	(1,055)	(12,032)	-	56	(552)	14,024
Dividends received	(1,751)	(1,973)	-	-	(3,898)	(2,180)
<b>Closing carrying value</b>	<b>83,381</b>	<b>82,811</b>	<b>21,658</b>	<b>19,362</b>	<b>145,710</b>	<b>144,851</b>

1. These numbers are management estimates based on available market data.

The intangibles and goodwill recognised on acquisition have now been separately identified in the table above, resulting in the restatement of some prior year balances.

Summarised statement of comprehensive income	Webmotors S.A.		iCar Asia Limited*		SK ENCARSALES.COM Ltd	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Revenue	37,023	39,526	6,811	4,443	35,120	27,761
<b>Profit from continuing operations</b>	<b>11,255</b>	11,595	<b>(12,159)</b>	(15,889)	<b>10,640</b>	9,519
Other comprehensive income	-	-	-	-	(665)	-
<b>Total comprehensive income</b>	<b>11,255</b>	11,595	<b>(12,159)</b>	(15,889)	<b>9,975</b>	9,519
<b>carsales share</b>						
Profit from continuing operations	3,376	3,478	(2,456)	(3,288)	5,309	4,736
Other comprehensive income	(1,055)	(12,032)	-	-	(552)	14,024
<b>Total</b>	<b>2,321</b>	(8,554)	<b>(2,456)</b>	(3,288)	<b>4,757</b>	18,760
Dividends received from associates and joint venture entities	1,751	1,973	-	-	3,898	2,180

\* These numbers are management estimates based on available market data.

#### (d) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Brazilian Real (BRL), the Korean Won (KRW), the Mexican Peso (MXP) and Chilean Peso (CLP).

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in foreign currency that is not the entity's functional currency.

Hedging contracts are sometimes used to manage foreign currency exchange risk. The Company has a treasury strategy and a treasury policy and will actively hedge any major known commitments using forward exchange contracts. The Company does not investment hedge quasi-equity intercompany loans used to fund investments in subsidiaries, but does not investment hedge the carrying value of associates in the balance sheet. Trading and dividend cash flows between associates and the Group are not hedged unless the cash flows are significant and the amount and future payment date are certain. No foreign currency derivatives were entered into in the year.

The analysis below reflects management's view of possible movements in relevant foreign currencies against the Australian dollar. The table summarises the range of possible outcomes that would affect the Group's net profit and equity as a result of foreign currency movements.

The estimated impact on carsales.com Ltd's share of the reported net profits of our significant overseas associates and subsidiaries through potential movements in exchange rates are as follows:

		2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Impact on profit:</b>		-5%	-5%	5%	5%
AUD to KRW	(+5% to -5%)	252.3	281.4	(252.3)	(281.4)
AUD to BRL	(+5% to -5%)	160.8	204.0	(160.8)	(204.0)
AUD to MXP	(+5% to -5%)	(22.2)	-	22.2	-
AUD to CLP	(+5% to -5%)	13.7	-	(13.7)	-
Net movement		404.6	485.4	(404.6)	(485.4)
		2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Impact on equity:</b>		-5%	-5%	5%	5%
AUD to KRW	(+5% to -5%)	6,911	6,895	(6,911)	(6,895)
AUD to BRL	(+5% to -5%)	3,971	3,834	(3,971)	(3,834)
AUD to MXP	(+5% to -5%)	464	-	(464)	-
AUD to CLP	(+5% to -5%)	936	-	(936)	-
Net movement		12,282	10,729	(12,282)	(10,729)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### 20. Business combinations and disposals

#### (a) SoloAutos acquisition

On 2 October 2015, carsales.com Ltd acquired 65% of carsales Mexico SAPI de CV (SoloAutos).

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	<b>\$'000</b>
Purchase consideration:	
Cash paid	10,624
The assets and liabilities acquired are estimated as follows:	
Cash and cash equivalents	4,269
VAT receivable	877
Plant and equipment	88
Intangible assets	3,245
<b>Net assets</b>	<b>8,479</b>
Less: Non-controlling interests	(2,661)
Add: Goodwill	4,806
<b>Net assets acquired</b>	<b>10,624</b>

#### (i) Initial accounting

Both the net asset value and the allocation of the purchase price to acquired assets are still preliminary. In particular, the fair values assigned to intangible assets are still being assessed and may be subject to change. The acquisition accounting will be finalised within 12 months of the acquisition date.

#### (ii) Earn out agreement

As part of the inducement agreement there is a portion of deferred consideration that is payable to the other shareholder in respect of the purchase of the trade and assets of the business from SoloAutos. The earn out is calculated on the basis of the entity's performance over a three-year period after the acquisition date provided the other shareholder is in continuous employment. This amounts to a maximum of US\$ 2.15 million and is treated as employee compensation expense in the post combination period.

carsales has the option to purchase the remaining 35% of the shares subject to satisfaction of the terms and conditions at a price that approximates the fair value of the non-controlling interest at the date of exercise of the option.

#### (iii) Non-controlling interest

The Group has recognised the non-controlling interests in SoloAutos at proportionate share of net identifiable assets.

The current ownership structure of SoloAutos is as follows:

carsales.com Ltd	65%
<i>Non-controlling interests</i>	
Jose Antonio Ramirez (and other legacy shareholders)	35%
	100%

## (b) Chileautos acquisition

On 25 March 2016 carsales.com Ltd acquired 83.3% of Chileautos SpA (Chileautos).

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	<b>\$'000</b>
Purchase consideration:	
Cash paid	19,657
The assets and liabilities acquired are estimated as follows:	
Cash and cash equivalents	342
Accounts receivable	193
Tax assets	290
Plant and equipment	3
Trade and other payables	(68)
<b>Net assets</b>	<b>760</b>
Less: Non-controlling interests	(127)
Add: Goodwill	19,024
<b>Net assets acquired</b>	<b>19,657</b>

### (i) Initial accounting

Both the net asset value and the allocation of the purchase price to acquired assets are still preliminary. In particular, the fair values assigned to intangible assets are still being assessed and may be subject to change. The acquisition accounting will be finalised within 12 months of the acquisition date.

### (ii) Option to purchase remaining shares

carsales retains an option to purchase the remaining 16.7% stake in Chileautos at its election at any time during the next four years at a fixed price.

### (iii) Non-controlling interest

The Group has recognised the non-controlling interests in Chileautos at proportionate share of net identifiable assets.

The current ownership structure of Chileautos is as follows:

carsales Chile SpA	83.3%
<i>Non-controlling interests</i>	
Carlos Gonzalo Prieto Concha	7.5%
Andres Cooper Ochsenius	1.7%
Juan Francisco Bettancourt Mujica	7.5%
	100%

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### 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. Contingent payments classified as debt are subsequently remeasured through profit or loss. 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. If the Company recognises previously acquired deferred tax assets after the initial acquisition accounting is completed these will be recorded directly in profit or loss.

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.

### (c) Sale of business

The profit from sale of business of \$931,000 represents the net profit of sale of Homesales business on 30 June 2016.

### (d) Stratton acquisition

On 15 July 2014, carsales.com Ltd acquired 50.1% of Stratton Finance Pty Ltd (Stratton), an innovative vehicle finance business and long-term customer of carsales.com Ltd.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	<b>\$'000</b>
Purchase consideration:	
Cash paid	58,995
<b>The assets and liabilities acquired are estimated as follows:</b>	
Cash and cash equivalents	3,929
Trade and other receivables	2,684
Plant and equipment	1,670
Inventory	1,376
Intangible assets	6,475
Trade and other payments	(7,085)
Provisions	(793)
External loans	(588)
Tax liabilities	(3,997)
Deferred tax	(1,634)
<b>Net assets:</b>	<b>2,037</b>
Add: Non-controlling interest	1,117
Add: Goodwill	55,841
<b>Net assets acquired</b>	<b>58,995</b>

The goodwill is attributable to the workforce, Stratton's strong position in a high growth market, its customer database, the high profitability of the business and synergistic benefits expected to be created by this acquisition. The goodwill is not expected to be deductible for tax purposes.

## 21. Related party transactions

### (a) Subsidiaries

Interests in subsidiaries are set out in Note 19.

### (b) Key Management Personnel compensation

	2016 \$	2015 \$
Short term employee benefits	8,606,950	6,918,270
Post-employment benefits	162,626	155,049
Long term employment benefits	137,247	363,297
Share-based payments	244,800	1,794,402
	<b>9,151,623</b>	<b>9,231,018</b>

### (c) Transactions with other related parties

The following transactions occurred with related parties, the nature of which are described in the Remuneration Report.

	2016 \$	2015 \$
<i>Sales of goods and services</i>		
Sale of services to related parties	988,588	858,996
<i>Purchases of goods and services</i>		
Purchases of goods and services from related parties	3,471,979	3,434,710

All transactions were made on normal commercial terms and conditions, at market rates and includes transactions with associates.

### (d) 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:

	2016 \$	2015 \$
Current receivables (sales of goods and services)		
Other related parties	137,367	108,392
Current payables (purchases of goods and services)		
Other related parties	876,268	850,521

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### 22. Deed of cross guarantee

The following controlled entities have entered into a Deed of Cross Guarantee:

Company	Financial year entered into agreement
carsales.com Limited	30 June 2015
carsales Holdings Pty Ltd	30 June 2015
carsales Finance Pty Ltd	30 June 2015
Auto Exchange Holdings Pty Ltd	30 June 2015
Automotive Data Services Pty Ltd	30 June 2015
carsales.com Investments Pty Ltd	30 June 2015
Discount Vehicles Australia Pty Ltd	30 June 2015
Equipment Research Group Pty Ltd	30 June 2015
Webpointclassifieds Pty Ltd	30 June 2015
carsales Latam Pty Ltd	30 June 2016
carsales Foundation Pty Ltd	30 June 2016

The companies that are party to this deed guarantee the debts of the others and represent the 'Closed Group' from the date of entering into the agreement.

These wholly-owned entities have been relieved from the requirement to prepare a financial report and Directors' Report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

#### (a) Consolidated statement of comprehensive income

Set out below is a consolidated Income Statement for the year ended 30 June 2016 of the Closed Group.

	2016 \$'000	2015 \$'000
<b>Consolidated statement of comprehensive income</b>		
<b>Revenue from continuing operations</b>		
Sale of goods and services	254,953	238,303
<b>Revenue from continuing operations</b>	<b>254,953</b>	<b>238,303</b>
<b>Expenses</b>		
Costs of sale	(119)	(141)
Sales and marketing expenses	(68,611)	(54,979)
Operations and administration	(15,169)	(19,543)
Service development and maintenance	(17,007)	(21,931)
<b>Earnings before interest, taxes, depreciation and amortisation</b>	<b>154,047</b>	<b>141,709</b>
Depreciation and amortisation expense	(5,437)	(4,004)
Finance income	656	571
Finance costs	(8,598)	(8,772)
Dividends received	5,323	6,231
Gain on sale of business	931	-
<b>Profit before income tax</b>	<b>146,922</b>	<b>135,735</b>
Income tax expense	(43,287)	(38,526)
<b>Profit from continuing operations</b>	<b>103,635</b>	<b>97,209</b>
<b>Total comprehensive income for the year</b>	<b>103,635</b>	<b>97,209</b>

## (b) Consolidated statement of financial position

Set out below is a consolidated statement of financial position as at 30 June 2016 of the Closed Group.

	2016 \$'000	2015 \$'000
<b>Consolidated statement of finance position</b>		
<b>Current assets</b>		
Cash and cash equivalents	13,517	16,177
Trade and other receivables	55,894	36,998
<b>Total current assets</b>	<b>69,411</b>	<b>53,175</b>
<b>Non-current assets</b>		
Investments	338,920	313,556
Property, plant and equipment	2,953	3,576
Deferred tax assets	5,323	4,806
Intangible assets	89,319	85,545
<b>Total non-current assets</b>	<b>436,515</b>	<b>407,483</b>
<b>Total assets</b>	<b>505,926</b>	<b>460,658</b>
<b>Current liabilities</b>		
Trade and other payables	21,359	18,836
Current tax liabilities	6,312	584
Provisions	5,266	4,622
Deferred revenue	5,990	5,413
<b>Total current liabilities</b>	<b>38,927</b>	<b>29,455</b>
<b>Non-current liabilities</b>		
Borrowings	219,531	209,151
Provisions	784	1,031
<b>Total non-current liabilities</b>	<b>220,315</b>	<b>210,182</b>
<b>Total liabilities</b>	<b>259,242</b>	<b>239,637</b>
<b>Net assets</b>	<b>246,684</b>	<b>221,021</b>
<b>Equity</b>		
Contributed equity	99,026	91,905
Reserves	23,185	20,299
Retained earnings	124,473	108,817
<b>Total equity</b>	<b>246,684</b>	<b>221,021</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### Other

#### 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:

##### (a) PricewaterhouseCoopers

	2016 \$	2015 \$
<i>PricewaterhouseCoopers firm</i>		
Audit and review of financial reports	370,616	349,000
Controls and assurance services	-	25,028
Due diligence services	224,566	241,879
Total remuneration for audit and other assurance services	595,182	615,907
<i>Taxation services</i>		
Tax compliance services, including review of Company income tax returns	143,350	77,000
International tax consulting and tax advice on mergers and acquisitions	88,124	84,264
Total remuneration for taxation services	231,474	161,264
<i>Other services</i>		
Other services	88,472	8,000
Total remuneration of PricewaterhouseCoopers	915,128	785,171

##### (b) Non-PwC audit firms

<i>Audit and other assurance services</i>		
Audit and review of financial statements	33,097	79,683
Total remuneration for audit and other assurance services	33,097	79,683
<b>Total auditors' remuneration</b>	<b>948,225</b>	<b>864,854</b>

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

## 24. Share-based payments

Share-based compensation benefits are provided to employees via the carsales.com Ltd Employee Option Plan.

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were \$2,214,000 (2015: \$1,614,000)

### (a) Employee Option Plan

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

#### 2016

Grant date	Expiry date	Exercise price	Balance at start of the year Number	Options granted during the year Number	Performance rights granted during the year Number	Total exercised during the year Number	Expired or lapsed during the year Number	Balance at the end of the year Number	Vested and exercisable at end of the year Number
Oct 2010	Oct 2015	\$4.90	25,000	-	-	(25,000)	-	-	-
Mar 2011	Oct 2015	\$4.90	45,000	-	-	(45,000)	-	-	-
Oct 2011	Oct 2016	\$4.69	33,662	-	-	(12,598)	-	21,064	21,064
Mar 2012	Oct 2016	\$4.69	69,244	-	-	(54,051)	-	15,193	15,193
Oct 2012	Oct 2017	\$5.93	482,823	-	-	(255,956)	(10,147)	216,720	216,720
Oct 2012	Oct 2017	\$0.00	140,654	-	-	(136,614)	(4,040)	-	-
Oct 2013	Oct 2018	\$9.10	394,759	-	-	-	(20,133)	374,626	-
Oct 2013	Oct 2018	\$0.00	183,511	-	-	(37,271)	(4,239)	142,001	-
Oct 2014	Oct 2019	\$10.71	657,376	-	-	-	(18,917)	638,459	-
Oct 2014	Oct 2019	\$0.00	224,523	-	-	-	(4,658)	219,865	-
Oct 2015	Oct 2020	\$10.24	-	864,041	-	-	(1,521)	862,520	-
Oct 2015	Oct 2020	\$0.00	-	-	270,134	-	(360)	269,774	-
<b>Total</b>			<b>2,256,552</b>	<b>864,041</b>	<b>270,134</b>	<b>(566,490)</b>	<b>(64,015)</b>	<b>2,760,222</b>	<b>252,977</b>
Weighted average exercise price			\$6.35	\$10.24	\$0.00	\$3.84	\$6.97	\$7.44	\$5.75

#### 2015

Grant date	Expiry date	Exercise price	Balance at start of the year Number	Options granted during the year Number	Performance rights granted during the year Number	Total exercised during the year Number	Expired or lapsed during the year Number	Balance at the end of the year Number	Vested and exercisable at end of the year Number
Jul 2007	Sep 2014	\$1.75	5,000	-	-	(5,000)	-	-	-
Mar 2010	Oct 2014	\$3.89	30,625	-	-	(30,625)	-	-	-
Oct 2010	Oct 2015	\$4.90	175,000	-	-	(150,000)	-	25,000	25,000
Mar 2011	Oct 2015	\$4.90	100,000	-	-	(55,000)	-	45,000	45,000
Oct 2011	Oct 2016	\$4.69	659,375	-	-	(625,713)	-	33,662	33,662
Oct 2011	Oct 2016	\$0.00	133,725	-	-	(133,725)	-	-	-
Mar 2012	Oct 2016	\$4.69	164,283	-	-	(92,453)	(2,586)	69,244	69,244
Mar 2012	Mar 2017	\$0.00	52,379	-	-	(52,379)	-	-	-
Oct 2012	Oct 2017	\$5.93	710,410	-	-	(126,691)	(100,896)	482,823	96,927
Oct 2012	Oct 2017	\$0.00	255,370	-	-	(74,888)	(39,828)	140,654	-
Oct 2013	Oct 2018	\$9.10	406,156	-	-	-	(11,397)	394,759	-
Oct 2013	Oct 2018	\$0.00	218,988	-	-	-	(35,477)	183,511	-
Oct 2014	Oct 2019	\$10.71	-	660,349	-	-	(2,973)	657,376	-
Oct 2014	Oct 2019	\$0.00	-	-	225,255	-	(732)	224,523	-
<b>Total</b>			<b>2,911,311</b>	<b>660,349</b>	<b>225,255</b>	<b>(1,346,474)</b>	<b>(193,889)</b>	<b>2,256,552</b>	<b>269,833</b>
Weighted average exercise price			\$4.57	\$10.71	\$0.00	\$3.90	\$3.85	\$6.39	\$5.19

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

The estimate of the weighted average share price at the date of exercise of options exercised regularly during the year ended 30 June 2016 is estimated to be approximately \$10.47 (2015: approximately \$10.49).

The weighted average remaining contractual life of share options outstanding at the end of the period was 3.34 years (2015: 3.17 years).

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 and performance rights are granted under the plan for no consideration with conditions including a vesting period and expiry date. Senior Executives' vesting conditions, including EPS targets, are noted in the Remuneration Report on page 36.

Options and performance rights 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's exercise price. Each performance rights is convertible into one ordinary share for \$0.00 exercise price, upon satisfaction of all vesting requirements.

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

### Fair value of options and performance rights granted

The assessed fair value at grant date of options granted during the year ended 30 June 2016 is \$1.86 (2015: \$2.36). The assessed value at grant date of performance rights granted during the year ended 30 June 2016 ranged between \$8.44 and \$8.74 (2015: between \$9.12 and \$9.41). 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 and performance right, 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 and performance rights granted during the year ended 30 June 2016 included:

	Options		Performance rights	
	2016	2015	2016	2015
Exercise price	\$10.24	\$10.71	\$0.00	\$0.00
Grant date	October 2015	October 2014	October 2015	October 2014
Expiry date	October 2020	October 2019	October 2020	October 2019
Share price at grant date	\$9.71	\$10.33	\$9.71	\$10.33
Expected price volatility of the Company's shares	31.8%	33.9%	31.8%	33.9%
Expected dividend yield	3.5%	3.1%	3.5%	3.1%
Risk-free interest rate	2.8%	3.6%	2.8%	3.6%

The expected price volatility is based on historical volatility adjusted for any expected changes to future volatility due to publicly available information.

## 25. Parent entity financial information

### (a) Summary financial information

	2016 \$'000	2015 \$'000
<b>Balance sheet</b>		
Current assets	58,777	56,894
Non-current assets	413,556	409,698
<b>Total assets</b>	<b>472,333</b>	466,592
Current liabilities	15,909	63,047
Non-current liabilities	220,556	210,182
<b>Total liabilities</b>	<b>236,465</b>	273,229
<i>Shareholders' equity</i>		
Issued capital	99,026	91,905
Reserves	23,214	20,299
Retained earnings	113,628	81,159
<b>Total equity</b>	<b>235,868</b>	193,363
<b>Profit or loss for the year</b>	<b>130,698</b>	96,835
<b>Total comprehensive income</b>	<b>130,698</b>	96,835

### Recognition and measurement

The financial information for the parent entity, carsales.com Ltd, 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 16 for details of impairment accounting policies.

#### (b) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2016 or 30 June 2015.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### 26. Other accounting policies

The following standards will be applicable in future reporting periods and the Group will adopt the standards upon the operative date. The Group is assessing the impact of these standards; however, they are not expected to have significant impact:

- AASB 9 Financial Instruments (effective 1 January 2018).
- Clarification of acceptable methods of depreciation and amortisation (AASB 2014-4) (effective 1 January 2016).
- Accounting for acquisitions of interests in joint operations (AASB 2014-3) (effective 1 January 2016).
- AASB 15 Revenue from Contracts with Customers (effective 1 January 2018).
- IFRS 16 Leases (effective 1 January 2019).

The following standards are not applicable to carsales.com Ltd and therefore there is no impact on the Group:

- AASB 2013-5 Amendments to Australian Accounting Standards - Investment Entities (effective 1 January 2014).
- Transitioning between tiers (AASB 2014-2) (effective date 1 July 2014).
- AASB Interpretation 21 Levies (effective 1 January 2014).
- AASB 2013-4 Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting – [AASB 139] (effective 1 January 2014).
- Hedge Accounting and Amendments to IFRS 9, IFRS 7 and IAS 39.
- Defined Benefit Plans: Employee Contributions – Amendments to IAS 19 (effective 1 January 2014).
- Accounting for Levies (Interpretation 21) (effective 1 January 2014).
- Consolidation and interest of policy holders (AASB 2013-7) (effective 1 January 2014).
- Superannuation Entities (AASB 1056) (effective 1 January 2016).

### 27. Events occurring after the reporting period

No matter or circumstance has occurred subsequent to period end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial years.

# DIRECTORS' DECLARATION

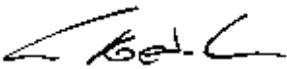
30 JUNE 2016

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 48 to 92 are in accordance with the *Corporations Act 2001*, including:
  - (i) Complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements.
  - (ii) Giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 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.

The basis of preparation 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*.



**Greg Roebuck**  
Managing Director

Melbourne  
8 August 2016

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS CARSALES.COM LTD



## **Independent auditor's report to the members of carsales.com Ltd**

### ***Report on the financial report***

We have audited the accompanying financial report of carsales.com Ltd (the company), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated 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 carsales.com Ltd (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In the basis of preparation section, 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. Those 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 consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### ***Independence***

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

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**PricewaterhouseCoopers, ABN 52 780 433 757**  
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001  
T: 61 3 8603 1000, F: 61 3 8603 1999, [www.pwc.com.au](http://www.pwc.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.



### *Auditor's opinion*

In our opinion:

1. the financial report of carsales.com Ltd 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 2016 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
2. the financial report and notes also comply with International Financial Reporting Standards as disclosed in the basis of preparation section.

### **Report on the Remuneration Report**

We have audited the remuneration report included in pages 28 to 46 of the directors' report for the year ended 30 June 2016. 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 Ltd for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

  
PricewaterhouseCoopers

  
Anton Linschoten  
Partner

Melbourne  
8 August 2016

# SHAREHOLDER INFORMATION

30 JUNE 2016

The shareholder information set out below was applicable as at 13 July 2016.

## A. Distribution of equity securities

Holding	Class of equity security			
	Ordinary shares	Options and performance rights	Redeemable preference shares	Convertible notes
1 – 1,000	10,138	7	-	-
1,001 – 5,000	6,509	37	-	-
5,001 – 10,000	863	16	-	-
10,001 – 100,000	496	27	-	-
100,001 and over	80	5	-	-
	18,086	92	-	-

There were 220 holders of less than a marketable parcel of ordinary shares.

## B. Equity security holders

### Twenty largest quoted equity security holders

The names of the 20 largest holders of quoted equity securities are listed below:

Name	Ordinary shares	
	Number held	Percentage of issued shares
HSBC Custody Nominees (Australia) Limited	58,868,688	24.4
J P Morgan Nominees Australia Limited	35,265,097	14.6
National Nominees Limited	17,228,358	7.1
Citicorp Nominees Pty Limited	15,305,873	6.3
Clear-Way Investments Pty Ltd <The James Family A/C>	14,493,662	6.0
BNP Paribas Noms Pty Ltd <DRP>	11,728,530	4.9
RBC Investor Services Australia Nominees Pty Limited <BKCUST A/C>	5,727,724	2.4
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	5,454,594	2.3
AMP Life Limited	4,129,804	1.7
Essena Pty Ltd	3,281,284	1.4
Four Us Pty Ltd	2,926,555	1.2
Steven Kloss Pty Ltd <Kloss Family A/C>	2,482,000	1.0
Billkaren Pty Ltd <Robinson Family A/C>	2,250,000	0.9
Gregory Paul Roebuck	1,605,347	0.7
Kilienz Pty Ltd <PW & AE Aitken Family A/C>	1,400,000	0.6
Citicorp Nominees Pty Limited <Colonial First State INV A/C>	1,219,542	0.5
Mr Andrew Gajtan Curmi	1,160,500	0.5
HSBC Custody Nominees (Australia) Limited <NT-COMNWLTH Super Corp A/C>	1,030,655	0.4
Mrs Anne Beirne	1,000,000	0.4
Milton Corporation Limited	920,000	0.4
	187,478,213	77.7
	<b>Number on issue</b>	<b>Number of holders</b>
Options and performance rights issued under the carsales.com Ltd Employee Option Plan to take up ordinary shares	2,760,222	92

# SHAREHOLDER INFORMATION CONTINUED

30 JUNE 2016

## C. Substantial holders

Substantial holders in the Company are set out below:

	<b>Number held</b>	<b>Percentage</b>
The Goldman Sachs Group, Inc	20,002,348	8.3
Hyperion Asset Management	14,632,099	6.1
JCP Investment Partners	12,430,946	5.2

## 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.

# CORPORATE DIRECTORY

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## Directors

### Jeffrey Browne

(Non Executive Chair) (from 27.8.15)  
(Non Executive Director to 24.8.15)

### Wal Pisciotta OAM

(Non Executive Director)  
(Non Executive Chair – to 27.8.15)

### Greg Roebuck

(Managing Director)

### Richard Collins

(Non Executive Deputy Chair)

### Pat O'Sullivan

(Non Executive Director)

### Kim Anderson

(Non Executive Director)

### Edwina Gilbert

(Non Executive Director) (from 27.4.16)

### Steve Kloss

(Alternate Non Executive Director)

## Company secretary

**Nicole Birman**

## Registered office

Level 4, 449 Punt Road  
Richmond Vic 3121  
T +61 3 9093 8600  
F +61 3 9093 8697  
carsales.com.au

## Share registry

Computershare Ltd  
452 Johnston Street  
Abbotsford Vic 3067  
T +61 3 9415 4000  
F +61 3 9473 2500  
computershare.com

## External auditor

PricewaterhouseCoopers  
Freshwater Place  
2 Southbank Boulevard  
Southbank Vic 3006

## Stock Exchange

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

ASX: CAR

