

**Appendix 4E****carsales.com Ltd**

ABN 91 074 444 018

**Results for Announcement to the Market****Full-year ended 30 June 2018**

(Previous corresponding period: Full-year ended 30 June 2017)

				<b>A\$'000</b>
<b>Revenue</b> from ordinary activities	Up	19.32%	to	<b>444,009</b>
<b>Profit</b> from ordinary activities after tax attributable to members	Up	68.84%	to	<b>184,843</b>
<b>Net profit</b> for the period attributable to members	Up	68.84%	to	<b>184,843</b>

<b>Dividends / Distribution</b>	<b>Amount per security</b>	<b>Franked amount per security</b>
2017 Final Dividend paid	21.5 cents	21.5 cents
2018 Interim Dividend paid	20.5 cents	20.5 cents
2018 Final Dividend declared	23.7 cents	23.7 cents

**2018 final dividend dates**

Record date for determining entitlements to the dividends	25 <sup>th</sup> September 2018
Latest date for dividend reinvestment plan participation	26 <sup>th</sup> September 2018
Dividend payable	10 <sup>th</sup> October 2018

	<b>30 June 2018</b>	<b>30 June 2017</b>
<b>Net tangible assets backing per ordinary share</b>	(132.99 cents)	31.93 cents

**Other information required by Listing Rule 4.3A**

Other information requiring disclosure to comply with Listing Rule 4.3A is contained in the 30 June 2018 Financial Report.

# Continuing our global journey

Annual Report  
2018



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## Our Vision

carsales helps many thousands of people across the world buy, sell and research vehicles – every day of the year.

Our vision is to empower our customers, making buying and selling vehicles easy and frictionless for everyone – consumers, dealers and manufacturers alike.

From a first car to a dream car; from a vital tool of trade to the latest boating passion purchase; we empower buyers and sellers of all types, giving them confidence when they transact online, regardless of level of expertise, whether its their first purchase or their 50th.

carsales built its name in Australia and today we are extending our know-how and industry leading platforms across the globe as we broaden the reach of our business.

We build strong partnerships throughout our eco-system and we empower our people to deliver world-class customer-centric solutions which help all our customers buy, sell and own with confidence.

Whether it's a car, a motorcycle, a caravan, a truck, a boat or a combine harvester, we deliver the same level of technology and deep knowledge to ensure buyers, sellers, owners and advertisers have rewarding outcomes.



# Our Purpose

Every carsales person comes to work each day focussed on improving the experience for our customers – be it buying, selling or using vehicles.

At carsales we want every interaction with our team and businesses to be positive. We understand that buying or selling a car can be an uncertain process. That's why we work to make the experience as easy as possible. We empower our customers with knowledge; automate where possible to create frictionless processes and back up our technology with award-winning personal customer service.

As a business we are focused on successful outcomes for our customers. We view our products as the best route to a result and therefore continually strive to develop innovative products which have a demonstrable benefit for our customers. We do this by asking questions... Does it empower and provide insight? How does it make things easier? Does it reduce friction? Does it benefit everyone?

The carsales Group has reinforced its position as Australia's number one online destination for buying and selling cars, motorcycles, trucks, boats, caravans and machinery. By combining news and reviews on our classified sites, and services such as vehicle inspections, tyres, finance, warranties and insurance for consumers we make buying and selling easier. We pride ourselves on providing unique solutions for all our customers.

carsales' commercial customers are vital to the strength of the business and we continue to work hard to deliver them improved solutions and results. We have further strengthened and built more meaningful relationships with dealers, manufacturers and media agencies and this is delivering significantly for the business. We strive to be regarded by our customers as valued, easy to deal with partners and focused on their growth.

This year has been a year of evolution domestically and transformation internationally.

Our market-leading Australian news and classifieds sites are augmented by classifieds businesses in Argentina, Brazil, Chile, Mexico and South Korea. The importance of these international businesses cannot be underestimated as we look to export our proven IP and technology to maximise the opportunities presented by them.

With the acquisition of the remaining 50.1% of SK Encar in FY18, our international portfolio represents around 20% of the carsales Group's revenue result. With enormous potential to grow international revenues further, every employee is challenged to 'a global first' attitude. This ensures we act as one global business to build and accelerate the transformation of our international assets.



The carsales Group is committed to being a transparent business and having a positive impact on the community in all the countries in which we operate. We have worked hard to build our reputation as a trusted leader in our markets. We value and protect this position and strive to build it via diverse initiatives, our employment practices and through our charitable arm, the carsales Foundation.

Many of these initiatives are detailed in our inaugural Environmental, Social and Governance report which is available on the carsales shareholder website.

Most importantly, they reflect our desire to be not only global leaders in terms of customer outcomes and shareholder returns, but also to be an employer of choice and genuinely positive corporate citizens.

## Our Performance



# 459.4 million

User sessions on all carsales sites around the world in FY18\*



# 31,271

Car dealer customers around the world as at 30 June 2018



# 861,449

Cars for sale around the world



# 144,000

Number of inspections done by RedBook Inspect in FY18



# +154%

carsales is the most referred site for buying and selling cars versus our nearest competitor

Source: Nature Research Australia, June 2018.



# 1.8x

more time spent on carsales than nearest competitor

Source: Nielsen DCR, June 2018.

\* Source Google Analytics - Includes sessions on desktop, mobi and app for the following sites: carsales.com.au, redbook.com.au, motoring.com.au, boatsales.com.au, bikesales.com.au, caravancampingsales.com.au, trucksales.com.au, constructionsales.com.au, farmmachinerysales.com.au, carfacts.com.au, carpoint.com.au, boatpoint.com.au, redbookinspect.com.au, soloautos.mx, chileautos.cl and demotores.com.ar

# Australian Customer Service Performance

**92,717**

phone calls answered

**41,519**

emails responded to

**5,452**

live chats

**88.4%**

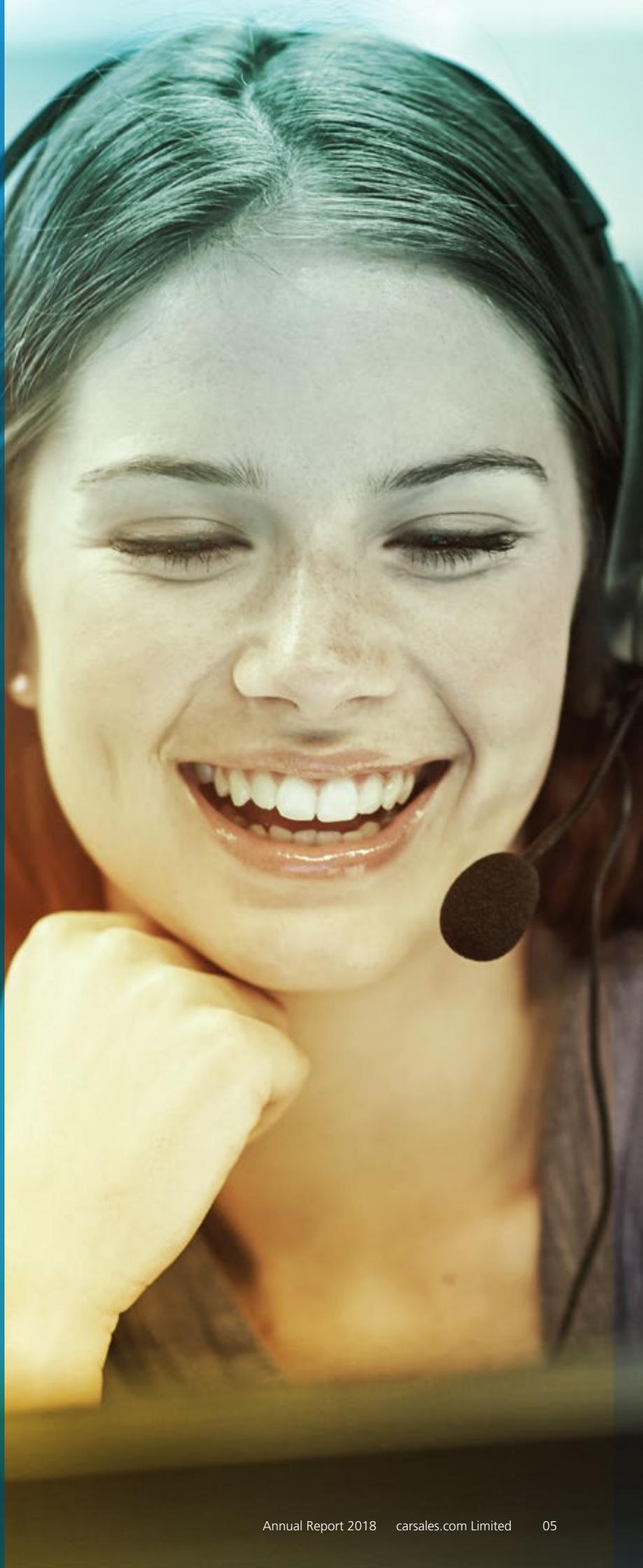
average service level

**80%**

average customer  
satisfaction rating

**700+**

unique help centre articles



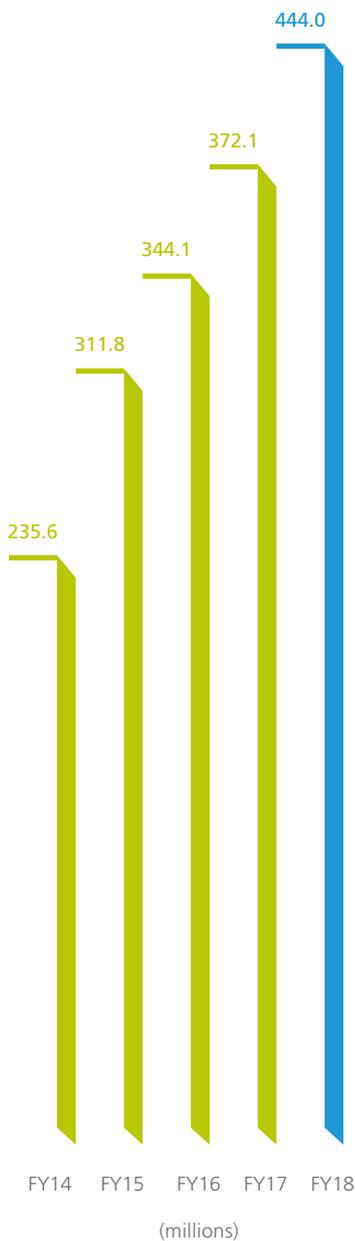
# Our Financial Performance

Revenue

**\$444.0m**

up 19% year on year

CAGR 17.2%

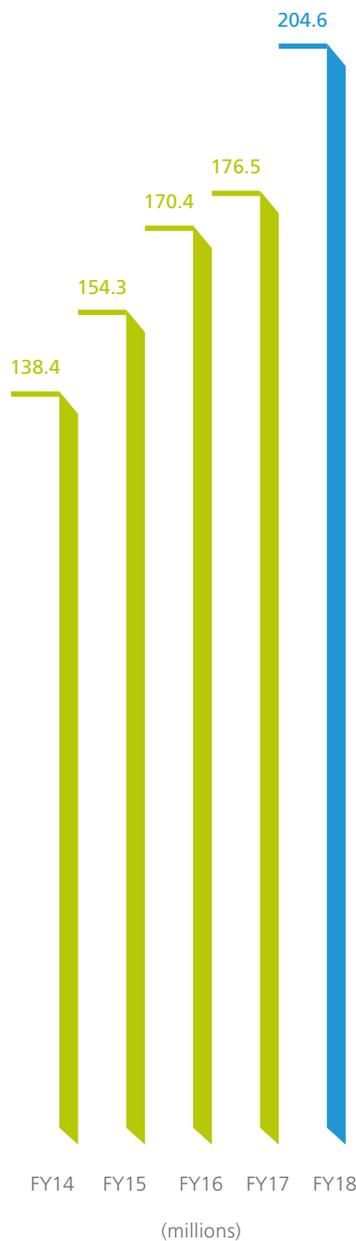


EBITDA

**\$204.6m**

up 16% year on year

CAGR 10.3%

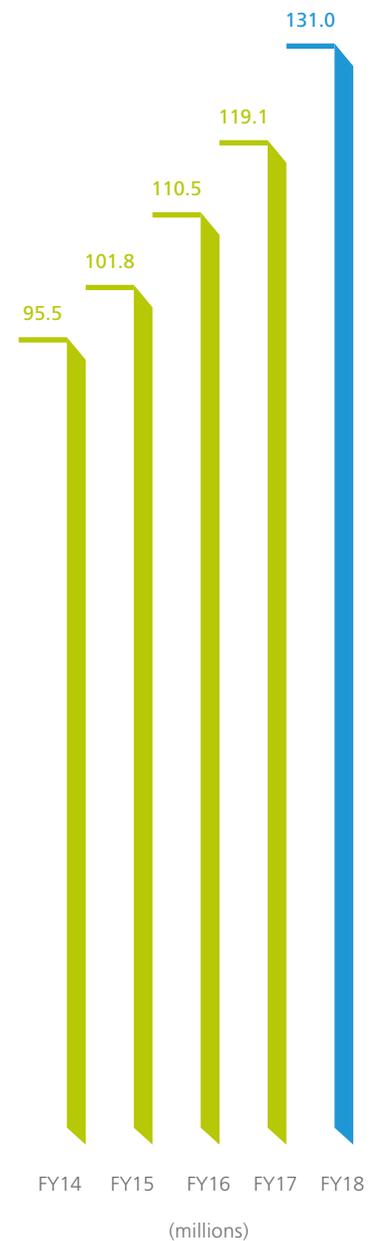


Adjusted NPAT\*

**\$131.0m**

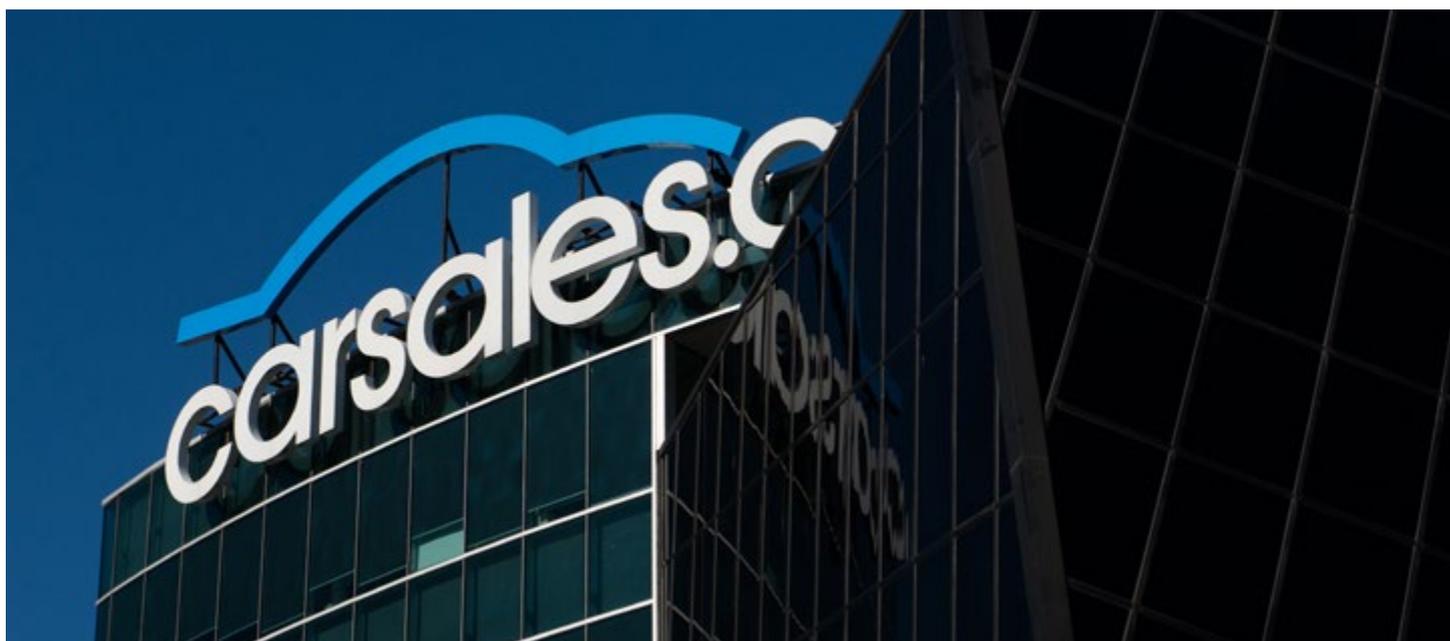
up 10% year on year

CAGR 8.2%



Year ending 30 June 2018	A\$ Millions		Growth	
	FY18	FY17	\$M	%
Revenue				
– Online Advertising Services	<b>295.6</b>	269.1	26.5	10%
– Data, Research and Services	<b>41.9</b>	39.3	2.6	7%
– Latin America	<b>8.2</b>	4.9	3.3	68%
– Asia	<b>29.9</b>	3.4	26.5	778%
– Finance and Related Services	<b>68.4</b>	55.4	13.0	24%
<b>Total revenue</b>	<b>444.0</b>	372.1	71.9	19%
Total operating expenses (before Interest, depreciation and amortisation)	<b>(239.4)</b>	(195.6)	(43.8)	(22%)
<b>EBITDA</b>	<b>204.6</b>	176.5	28.1	16%
EBITDA margin	<b>46%</b>	47%		
Depreciation and amortisation	<b>(12.7)</b>	(8.8)	(3.9)	(44%)
<b>EBIT</b>	<b>191.9</b>	167.7	24.2	14%
Net finance costs	<b>(9.8)</b>	(6.9)	(2.9)	(43%)
<b>Profit before tax</b>	<b>182.1</b>	160.8	21.3	13%
Income tax expense	<b>(54.6)</b>	(48.3)	(6.3)	(13%)
Profits from associates	<b>6.9</b>	10.1	(3.5)	(31%)
Non-controlling interests (NCI)	<b>(3.4)</b>	(3.5)	0.1	5%
<b>Adjusted net profit after tax*</b>	<b>131.0</b>	119.1	11.9	10%
<b>Total adjustments</b>	<b>53.8</b>	(9.6)	63.4	661%
Reported net profit after tax	<b>184.8</b>	109.5	75.3	69%
Adjusted earnings per share (cents)*	<b>54.0</b>	49.4	4.7	10%
Reported earnings per share (cents)	<b>76.3</b>	45.4	30.9	68%

\* The table above is presented on an adjusted basis. Adjusted NPAT and earnings per share are post non-controlling interests and exclude certain non-recurring or non-cash items relating to financing, investments and acquired intangible amortisation. See Note 6 of the financial statements for reconciliation to reported NPAT and earnings per share.



# Chair and Chief Executive Officer's Report



**Cameron McIntyre**  
Managing Director  
and CEO

**Richard Collins**  
Non-Executive Chair

It has been another enormously positive year at carsales, with many objectives achieved and challenges overcome. We leave FY18 in great shape and look forward to the year ahead.

We are pleased to report another year of record financial performance with revenue up 19% on pcp to \$444.0 million. Our core classified businesses continue to perform well, supported by double digit revenue growth across our major adjacencies including tyresales, Stratton Finance and RedBook Inspect. Our international companies continue to develop towards their potential and we are pleased with the contributions each has made over the past 12 months.

Earnings before interest, tax and depreciation/amortisation (EBITDA) was up 16% to \$204.6 million with EBITDA margins contracting slightly to 46%. This performance reflects the ongoing expansion of core business margins, as the Company continues to utilise its operating leverage, offset once again by our fast-growing early stage lower margin businesses.

Adjusted Net Profit After Tax (NPAT) increased 10% to \$131.0 million reflecting strong returns to shareholders in a year of continued investment in the business for long-term growth.

## Operational Performance

Market conditions over the past twelve months were good for used cars and remained patchy month to month for new car sales volumes. Amongst the proof points of this was the growth in used car lead volumes through the year, average time to sell declining and solid growth in traffic to the carsales site year on year, proving yet again the strength of the carsales brand in the automotive ecosystem.

The past 12 months have seen significant development in technology for both domestic and international markets. We have focused on delivering valuable trade products to support the needs of our dealer customers and launched several new capabilities throughout the year. Partly facilitated by the opening of our technology hub in Santiago, Chile we have been able to deploy a number of new apps (both Android and iOS) to support our domestic and Latin American dealer requirements. With such a large number of sites to maintain, we looked closely at the performance of several sites, and decommissioned those that were underperforming to re-focus resources onto other parts of the business with greater need and opportunity. In addition to this, the team also replaced our existing ERP platform with Netsuite and introduced Salesforce CRM which will enable our support capabilities to scale with the business moving forward.

Our consumer and commercial business units have continued to drive innovation to create new capabilities and enhance consumer experience over the past year. The evolution of products such as our dealer AutoGate app, SMS enquiry facility and codeless calling, advertising depth automation, lead and data distribution, and Cyclops (our AI image recognition system) are just a few examples of the effort going into strengthening our market leading products. These investments in core business capability will continue and we have a great deal to look forward to over the coming twelve months.

One of our primary long-term strategic objectives is the expansion of our business into high growth international markets and 2018 saw that objective continue to strengthen significantly with the acquisition of the remaining 50.1% of SK Encar from the SK group in South Korea and the acquisition of the remaining 35% of soloautos in Mexico. Both of these businesses represent strong long-term growth opportunities for carsales through the deployment of both intellectual property and technology.

The past 12 months have seen significant developments in our Latin American markets in particular Mexico, Chile and Argentina through the deployment of carsales technology. As a result of the work done to date we have seen substantial growth in the key operating metrics of customer numbers, traffic and inventory which we are confident will continue into 2019. In Brazil, our Webmotors business has again demonstrated the value that can be created over time with the right strategy and capability with stunning double-digit growth across all financial and operating metrics.

### Board & Governance Changes

Over the past twelve months, there have been a number of developments at a Board level. In March this year Chairman Mr Jeffrey Browne retired as a director of the Company. In July 2018 after a lengthy search we welcomed Mr Kee Wong to the Board of the Company. Kee is a passionate entrepreneur, technologist and car lover who comes with exceptional experience as both an executive and company director with a deep knowledge of the Asian market. The Board looks forward to working with Kee over the years to come.

Over the course of the year the Company completed its first ESG Report (Environment, Social & Governance Report) which describes the many things we are proud to do as an organisation in this area. The report is available for shareholders to read at [bit.ly/esg-reprt](http://bit.ly/esg-reprt).

### People & Culture

Our people and business culture are two of our most important business assets and once again in FY18 we have continued to invest heavily in this area. Our staff turnover and engagement measures are at the strongest levels they have ever been.

We have continued to improve our bench strength with our 2018 graduate intake program, having recruited six graduates across both commercial and technology disciplines and our 2019 program looks to be even better having received over 700 applications for another six available places.

The Company has a strong culture of diversity and inclusion and this year we were proud to again receive the WGEA Employer of Choice award. Building on this achievement, we rolled out several new flexible leave options to support and encourage our diversity goals.

### Debt & Capital Management

The Company regularly reviews its capital structure to ensure we are maximising shareholder returns. As a result of the Company completing the acquisition of the remaining 50.1% of SK Encar the Company has taken the opportunity to secure its long-term debt funding. Through the development of a syndicate of six leading banks the Company completed a competitive five year \$545 million debt funding facility in July 2018 (details can be found in Note 29 of this report) of which only around \$450 million is currently drawn down.

The Board has declared a final FY18 dividend payment of 23.7 cents per share fully franked, bringing the total FY18 dividends to 44.2 cents per share and representing an increase year on year of 10%.

The Board believes that the current dividend payout ratio of 82% reflects an appropriate balance between profit distribution to shareholders and reinvestment in the future growth in earnings.

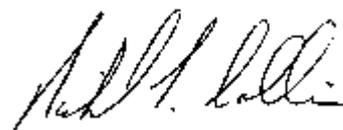
### Towards a Successful FY19

We are extremely grateful to the team we have at carsales. Our success is a clear and direct result of their passion and dedication to the Company. Our people are the envy of the markets they serve and we would like to publicly thank each and every one of them for what they bring to our business each day.

Finally, on behalf of the Board we would like to thank all of our customers, partners and investors around the world for their support and engagement over the past 12 months and we look forward to working with you all in FY19.



**Cameron McIntyre**  
Managing Director  
and CEO



**Richard Collins**  
Non-Executive Chair

# Review of the Year

## Cameron McIntyre CEO & Managing Director

**It has been an incredible 12 months and I'm very proud of the milestones the business has reached and the opportunities we have created.**

There are too many highlights to single out, but internationalising our technology, deploying new CRM and ERP platforms and the strength of our Commercial team are key. The feedback received throughout the year was very encouraging.

Our Consumer businesses have all shown strong growth and demonstrated once again the depth of our innovation capability. Internationally, we are making real progress and, with the acquisition of SK Encar, we are not just developing capability but also scale.

Our people are our most valuable asset and this year I've been very pleased with the way the executive team has come together. The commitment, leadership and engagement of the team has been outstanding.

Personally, the step up to the CEO role has been a great privilege. The support of the Board, customers, shareholders and former CEO, Greg Roebuck, has been invaluable.

It has been a great year for both me and the Company, with plenty to look forward to in the coming year.



## Ajay Bhatia Managing Director – Consumer

**The Consumer business unit has done a stellar job in FY18 and, as a result, has grown year on year revenue by over 20%. In addition to this impressive result, the team has set volume records for several products including tyres, CarFacts reports, warranty policies and car inspections sold. We also sold a record number of cars this year via Instant Offer, supported by our auction house partner, Pickles.**

Important and pleasing progress has been made in our Net Promoter Score and Customer Satisfaction scores. All consumer lines look very healthy, further cementing our relationship with our consumers and thereby, strengthening our market position.

In tandem with the consumer business, the product team has had a huge year with a focus on end-to-end solutions for our consumers, dealers and OEMs.

Some of the highlights include a new version of LiveMarket, an enhanced payment offering, introduction of SMS leads for dealers and a streamlined depth product offering for our sellers.

I am incredibly proud of the way the team has had a laser focus on talent, team work, a superior product offering and, importantly, our customers.



**Nicole Birman**  
**General Counsel and Company Secretary**

**The legal team prides itself on partnering with the business to facilitate its goals. Our role is to work with the team to find ways to accomplish their plans while avoiding legal complications and minimising risk.**

The work involved in closing the acquisition of the remaining 50.1% of SK Encar was a standout for the year; the complexities of dealing in overseas markets have challenged the legal team and it has truly delivered.

This year saw significant developments in privacy and data security regulations. The commencement of a new data breach regime in Australia and the GDPR in the European Union have significantly increased the focus on privacy and data within carsales. I am extremely proud of the work the legal team has done in developing a new privacy framework for carsales' operations around the world.

From a Company Secretarial perspective, publishing the Company's first ever ESG report took immense work and it was very pleasing to see the report released on the carsales' shareholder website.

For many years, carsales has done admirable work in the human capital and social space, and it was gratifying to see that work captured for our stakeholders.

The Board and I have also invested in relationships with key stakeholders, and we are confident that these stakeholders are now more knowledgeable than ever about our business.



**Andrew Demery**  
**Chief Financial Officer**

**It's been a year where carsales has again grown customer numbers, launched new products and optimised others, entered new markets and added to our portfolio of businesses internationally.**

We've taken a large step towards deploying a reliable, flexible and scalable back-of-house platform, enabling us to meet our own needs and the needs of customers, today and into the future.

No less important was our debt refinancing that was successfully completed in July 2018. This refinancing gives us funding certainty and flexibility out for the next 5 years and demonstrates the credit strength of the business.

The team's efforts to design and rollout a new ERP, CRM, billing and reporting platform with minimal business interruption is something of which I'm immensely proud of. This milestone was testament to the collaborative culture across the business, where a cross-functional team was able to come together and, on top of their day jobs, apply the innovative thinking for which we are famous in our consumer facing products to the more prosaic but no less important matters of customer service, fulfilment and relationship management.



**Michael Holmes**  
Executive Director – Dealer

**The Dealer team enjoyed its first full year as part of the Commercial business unit, and the benefits of the change didn't take long to surface.**

There were numerous projects throughout the year that highlighted our effectiveness and efficiency as a group, but the Dealer Services project encapsulated true teamwork and collaboration from all of our stakeholders. The strategy that underpinned this group was one of carsales being easy to do business with, and ultimately moving from just another supplier to a true business partner.

Hosting carsales' Las Vegas NADA Conference trip this year was a highlight. However, I'm even more pleased I'm still here to write this post after entertaining around 180 Australian car dealers at the 'carsales Australia Party'.

After nearly 30 years, I still truly enjoy being a part of the Australian dealer community and the camaraderie that it offers and I still get a kick out of visiting dealerships throughout the country.

As a team we have a very customer centric approach to our business. It's a mantra our team lives by, and which is starting to show through in our Dealer Sentiment and Satisfaction scores. We're not perfect by any stretch, but the improvement is constant.

We operated in good stead this year through the relationships we've developed with our clients irrespective of their size, location, ownership or affiliation.



**Jo Allan**  
Chief People Officer

**Creating employee experiences that deliver on the strategic pillars of the business has continued to be the focus of People & Culture this year.**

Key initiatives we have delivered include the introduction of a suite of creative flexible leave options, our Next Gear graduate program and the growth of Becoming a White Ribbon accredited employer and for the third year being recognised as a WGEA Employer of Choice are also real highlights of the year. Our CEO Scholarship was awarded to someone based in our office in Argentina – proof positive of the internationalisation of the carsales business.

People & Culture is a close knit team who are passionately focussed on attracting and retaining our talent at carsales. A highlight for the team was being recognised as a HRD Innovative Team in January of this year and I couldn't be prouder of all of their hard work and dedication to making carsales a great place to work.

On a personal note, I am very proud of the evolution of our diversity strategy and how we have focused on creating a workplace that supports everyone – regardless of life stage. Our culture is evolving but watching everyone truly embrace change shows that we are set up for the years to come.



**Kellie Cordner**  
**Chief Marketing Officer**

**Bringing together the marketing, content and editorial teams into a single unit has resulted in a stellar year of achievements particularly around the growth and engagement of our audiences.**

I'm exceptionally proud of the campaigns over the past year that I feel made the people of carsales all walk just a little taller. The multi-award winning AutoAds campaign stands out as a key highlight. To see the team work through something that has never been done before was extremely rewarding as was the overwhelmingly positive sentiment from our customers.

Our portfolio of brands goes from strength to strength with market leadership in both preference and trust. The growth in traffic across all our sites with all marketing channels contributing is most pleasing. May broke our carsales.com.au traffic record with over 23 million sessions – up 19% on May 2017.

The exceptional growth in performance marketing and the continual optimisation by the dedicated group to drive the conversion of our visitors has seen record results in attribution.

We have invested time and effort in shifting our content mix and formats which has delivered significant growth in engagement as we strive to meet the needs of today's ever curious, time poor consumer. The rewards of increased visitation to our portfolio of sites continues via our commitment to best practice SEO and our trade team has done a stellar job in dialling up our industry thought leadership.



**Jason Blackman**  
**Chief Information Officer**

**Establishing a technical hub in Santiago (Chile) was a step-change in FY18. Successfully integrating the new team into our existing operation means we can operate cohesively and collaboratively as one (despite the challenges of time zone and distance) is a key achievement for the business.**

We are all proud that the hub adds to our ability to build and operate products that are suitable for use around the world.

I am also exceptionally proud of how our wider team has come together to deliver new products and features for both our domestic and international customers. Some key examples include our AutoGate Mobile Applications and new retail sites across Latin America.

Our team has also done a fantastic job promoting diversity and building our talent pipeline, especially in the technology space where there is a continued and real opportunity for greater female participation.

We have successfully run a number of initiatives and events working with schools and universities to help build the next generation of technologists at carsales.



**Anthony Saines**  
Managing Director – Commercial

**FY18 has been eventful. We brought together the primary B2B business units of Dealer, Media and OEM for the first time under the Commercial business unit banner. As with any large-scale change management project there have been the occasional tears, tantrums and hiccups (and not all mine!), but I'm delighted with how the team has come together to display a unified front to our customers.**

We're not completely there yet. In fact, we've only just embarked on what will be an evolving journey, but our first financial year as a combined entity has only served to whet the appetite for what can be achieved.

Our investments in data, analytics and insights continue to bear fruit. RedBook IQ, carsales Communities and our Takata recall service are all data-driven solutions to industry challenges. Our pre- and post-launch lead generation service has proven to stimulate substantial

incremental demand for manufacturers launching new models. We continue to integrate with manufacturer and dealer CRMs via AutoGate.

We aim not just to be suppliers to our diverse client base but to genuinely add value and partner with them.

Our solutions have never been more ROI-focussed and effective in helping them understand, engage and convert their customers.



**Paul Barlow**  
Managing Director – International

**The end of FY18 marked five full years since our first international acquisition in Webmotors and the growing success we are now seeing in the business is a fantastic reward.**

Since becoming a strategic partner in Webmotors mid-2013, we have been very hands-on, giving the business its own identity as the clear number one online auto vertical in Brazil. We have sought to reinvent the business through quality management, product and technology and the application of a new business model. It is extremely pleasing to now see the results as proof of what we do works!

It is exciting that we have deployed another carsales executive internationally, this time into our soloautos business based in Guadalajara. Together with our previous carsales executive placement into chileautos in Santiago, we are now well positioned to further accelerate each business.

Another big highlight was the acquisition of SK Encar in South Korea. This is a fantastic business with a great management team to drive growth.

In May we held our second International Conference with the leaders of our businesses in South Korea, Brazil, Chile, Argentina and Mexico coming together to embrace the carsales culture.

This year we have completed the foundations for carsales to become a truly global business.

It's hard not to get excited by that!





Country highlight

# Australia

**229,215**

Cars for sale on carsales.com.au  
as at 30 June 2018

**12%**

revenue growth pcp

Country highlight

# South Korea

## 69,326

Cars for sale on SK Encar  
as at 30 June 2018

## 14%

Underlying revenue growth pcp



# Our Future

As one of Australia's original disruptors, we appreciate as well as anyone the need to understand and be ready to exploit the opportunities of the future, whilst being across market evolution and competitive dynamics that impact the business today.

The changes that are coming to the automotive market will eventually change the way people think about mobility and transportation. Electric vehicles, autonomous vehicles, the demise of diesel engines, new models of ownership all provide exciting opportunities for our business in the future. Our business is well placed to take advantage of these changes. No other business has the strength of trusted relationships with consumers, manufacturers, dealers, financiers and insurers. Our packaging of solutions for customers will ever increase, and while the long-term future for carsales may not be only about buying and selling cars, the Company will continue to be at the front of new trends and be central to the way people interact with mobility and transportation.

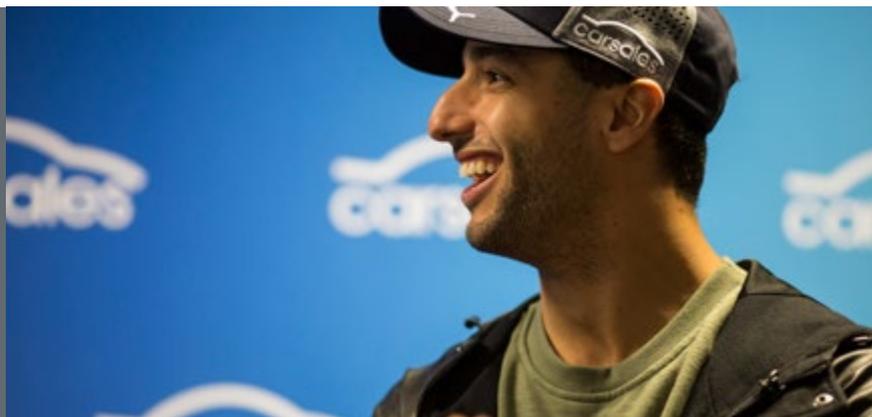
We are constantly investing in our future and in future technologies. Our early stage investments in businesses such as PromisePay and RateSetter are bearing fruit for the business today. Our investment in new technologies and programs like voice search, big data, blockchain, Artificial Intelligence, machine learning and the Stanford Cities of the Future program play a part in our future as we seek to create a truly frictionless experience in buying, selling and using vehicles.

Data underpins our business and powers an innovative suite of targeted advertising solutions, used by a range of industry partners to provide relevant offers to consumers. We will continue to invest in and deploy data science and artificial intelligence across the business to assist with processing improvements, providing insights and time-saving opportunities for all our customers.

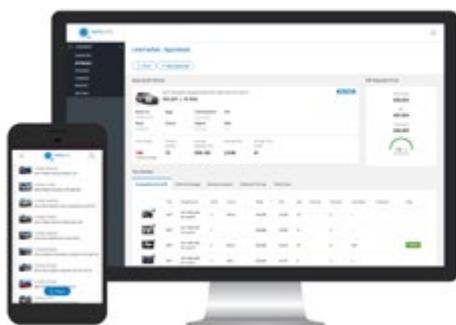
As one of Australia's most well-regarded technology innovators, we understand how vital continuous improvement is to our success. We have a global outlook and strive to attract, retain, empower and celebrate a truly diverse workforce that is empowered to deliver world-class solutions.

It is the desire and determination of our people to seek new ways to improve the experiences of our customers and deliver the next wave of technology innovation to revolutionise the mobility landscape.

# Our Commercial Business Performance



This is the first full year that the new Commercial team has been together and while the journey has been positive, we are now starting to see the advantages this new unified business unit brings to customers. The carsales team is increasingly regarded as a true partner to our commercial customers adding genuine value and return on investment in both our relationships and solutions.



We continue to be the industry thought leader and have increased investment in publishing independent research and providing insights to dealers, manufacturers (OEMs) and media agencies. Key highlights of this program included the publication of the '2017 Auto Buying Journey Study', quarterly market updates, and a library of short courses, learning events and webinars. These are proving to be popular and well regarded by our diverse customer base and add to our reputation as a leading industry educator and source of valuable business intelligence.

## Dealers

Our national dealer team now totals over 110 people, making it the largest field team in the country servicing our industry. This is a reflection of our commitment to our dealer relationships and dedication to delivering great results across our dealer network. We have worked hard to deepen and strengthen our relationships with dealers and the industry this year and it is paying dividends.

Our new bundled offerings (including display, promote and leads products) and our extremely popular 'Main Events' product, have gained considerable market traction this year.

We have launched a range of new offerings for larger corporate clients such as our consultancy arm, which focusses on deep-diving into the sales and operations of a dealership, offering strategy and direction for business owners.

Our AutoGate platform is the industry's leading dealer management software and we have continued to invest in it to ensure that managing leads and inventory is easier and more effective, through both functionality improvements, app enabled delivery and advanced data and insights. The new Promote automation engine is being introduced making it easy and frictionless for dealers to purchase Promote through AutoGate. Dealers are able to specify a budget and our proprietary algorithm selects appropriate cars for the most effective promote product.

The new AutoGate app (iOS and Android) allows dealers to easily manage stock; whilst the AutoGate reporting dashboard helps dealers make better-informed business decisions. We are seeing significant uptake of the AutoGate app as it gives today's dealership the mobile solution that its staff need. We will continue adding to the app enhancements to user experience over the next 12 months. This year we also launched SMS Call Connect on mobile and apps, making it easy for consumers to enquire on cars through SMS and the response from consumers has been phenomenal.



The introduction of two-way lead integration, feeding leads to and back from CRM systems from AutoGate, offers more transparency for dealerships of their activity and performance while our new updated version of LiveMarket for dealers delivers better functionality and integration into AutoGate.

### Manufacturers and Agencies

Our RedBookIQ insights tools are proving increasingly central to OEMs' decision making and the majority of the top OEMs now have access to at least one module of this SaaS tool.

We continue to roll out new vehicle and brand solutions for our partners, including a 'Pre-Launch' product that delivers pre-qualified demand to manufacturers prior to the official launch of a vehicle. We have had eight major car launches achieve success with this innovative product since debuting it in November.

Data-based recommendation products and native ads that leverage the carsales user experience and our unique assets and insights continue to grow, delivering a win for our audience and win for our advertising partners. Integration and functionality continue to evolve with video, mobile and other enhancements.

The continued investment in new forms of native advertising for manufacturers and agencies allows us to strengthen the value proposition we provide our partners. We don't focus on pushing products but rather obsess about providing insights and outcome. The strengthening of the relationships with manufacturers has led to greater collaboration. Campaigns around "carsales Car of the Year" and "Australia's Best Driver's Car Award" as well as sponsored content such as the 'carsales Challenge' are proving popular.

We have also been working closely with the industry on the Takata Airbag Recall. The carsales Takata Recall Service is an example of how the smart utilisation of carsales audience and data (in combination with NEVDIS, The National Exchange of Vehicle and Driver Information System) can help with the biggest vehicle safety issue Australia has ever faced. We have been able to help the industry engage with consumers, drive cut-through and significantly improve recall rates.

# Our Consumer Business Performance



This year we have seen extremely promising results from a full year of operation for the new Consumer team. The consumer business has delivered strong double-digit revenue growth across core and adjacent business lines.

In July 2017, we commenced a project that optimised the value we provide to private sellers. Not only were prices aligned to value (under a tiered pricing structure, based on anticipated selling price of a car), but a newly-designed 'user experience' interface, based on well-established behavioural economics heuristics, helped optimise sales conversion and upsells. This well-executed price change helped contribute to the stellar performance from private revenue during the financial year.

The performance of our adjacent businesses have been particularly strong throughout the year and as a result, tyresales, RedBook Inspect, Instant Offer, RedBook Warranty and CarFacts, have set all-time records for sales and performance.

tyresales has grown strongly and is now a significant player in the Australian tyre market. We completed the acquisition of a further 25% of this business in August 2017 giving carsales the majority holding in the Company. Sales have increased well and this year we sold 37% more tyres than the previous year.

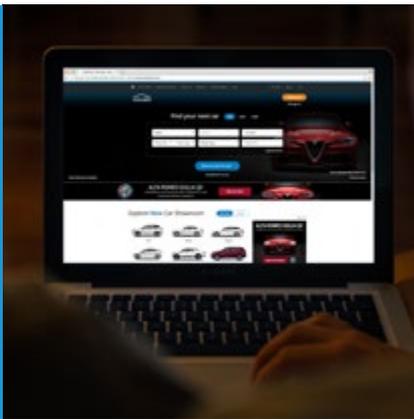
RedBook Inspect has continued strong growth this financial year with an ever-improving trajectory. The business has continued to grow its already substantial client base in all verticals, most notably ride share, finance and the dealer spaces. The underlying technology behind the business has and will continue to deliver marked improvements in margins through a more efficient workforce and the expansion into new and potentially very lucrative markets.

CarFacts reports have proved extremely popular with consumers on the back of better site integration and demand for increased peace of mind for consumers. Indeed, FY18 has been a record year for the reports, with sales increasing 69%.

We have worked hard to improve the integration and customer service for Instant Offer (our offer to purchase a consumer's vehicle supported by our auction partner Pickles) and this has resulted in record volumes of consumers making use of the time saving service.

PayProtect (our money transfer solution) has grown on an exponential basis with a 95% increase year on year on the number of vehicles, totalling many millions of dollars being transacted through the service. Our dedication to always improving the user experience and streamlining customer service is showing great results. Not only are we now seeing use of PayProtect on non-auto verticals but consumers are more comfortable using the platform for higher and higher value transactions. We will look to further expand this service into multiple areas of our business whilst bolstering the offering with new and exciting developments making buying and selling even easier.

We have expanded a number of Depth products for our private sellers, such as Showcase, allowing them to differentiate their ads, leading to a decreased time to sell and better customer experience.



Our Membership has grown by 17% year on year and we have seen a 120% increase in revenue directly attributable to members. We have seen members register nearly 75,000 cars in the carsales garage this year.

We have extensively improved our consumer user experience and this has led to the introduction of several key products such as codeless calls and SMS, leading to an improved consumer experience and higher leads to our dealers.

We have also invested significantly in our Customer Experience and Voice of Customer team, which reviews customer feedback across all channels, identifies common themes and trending issues, then works with the product teams to resolve the issues. Once a fix is in place, impact on customer experience metrics (such as Customer Satisfaction and NPS) is monitored and where possible, customers are informed of changes made as a result of their feedback. The goal is to continue to improve the customer experience within the buying, selling and owning journeys. Improvements in customer experience help drive customer retention, loyalty and lifetime value.

In November, we launched 'The Loop', our insights community made up of almost 5,000 carsales members. Members complete two or three research activities a month, with an outstanding average response rate of around 28% across all activities to date.

Activities range from testing new marketing messages to product feature preferences during the development stage. The insights gathered from the community are helping shape business decisions and ensuring the consumer is at the forefront of our design. This innovation led to carsales being a finalist in the New Community category in Vision Critical's annual "Visionary Awards" for APAC which recognises the best in customer intelligence within the region.

As we continue to improve and extend our AI applications we have seen an 11% higher completion rate for private seller ads when users opt to use the Cyclops image recognition feature on apps (iOS or Android), delivering improved customer and business outcomes. Further streamlining of the sell process on apps will continue in the coming months to improve the customer experience.

This period has also been about what the business stopped doing as much as what it continued doing. We successfully decommissioned a number of sites that were not regarded as core business – partsales, boatpoint, carpoint and quicksales – and this has led to resources being focused on growth areas of the business.

# Our Global Business Performance



This year has been pivotal in each of carsales' overseas businesses and delivering a platform for future growth. Our international businesses comprise around 20% of the Group's revenue giving us the scale to truly think 'global' in everything we do.

This year marks five years since our first overseas investment in Webmotors, which at the time was fighting for the number one auto vertical website position in Brazil. From the outset of the carsales investment, Webmotors underwent enormous change in mindset and structure while Brazil was experiencing a very tough macro-economic environment.

Led by a combination of carsales IP, operational excellence, investment in product and technology and a great partnership with Banco Santander, we fast forward to this year to see the macro-economic environment in Brazil starting to improve and Webmotors the clear number one auto vertical in Brazil with excellent growth in operational and financial metrics.

The success of what we have set out to achieve with the Webmotors business gives us the confidence and a blueprint for our other Latin American businesses that are still in the earlier phases of our growth strategy.

We continue to strengthen our strong market position in Chile through the implementation of carsales' IP and the continued investment in the chileautos team as well as new products and technology. The year also saw chileautos partner with Scotiabank to deliver new consumer finance leads; leveraging the Stratton experience in Australia this added an important part of our adjacent market strategy.

The appointment of an Argentinian based senior online advertising GM in the Demotores business in November 2017 signalled a number of structural

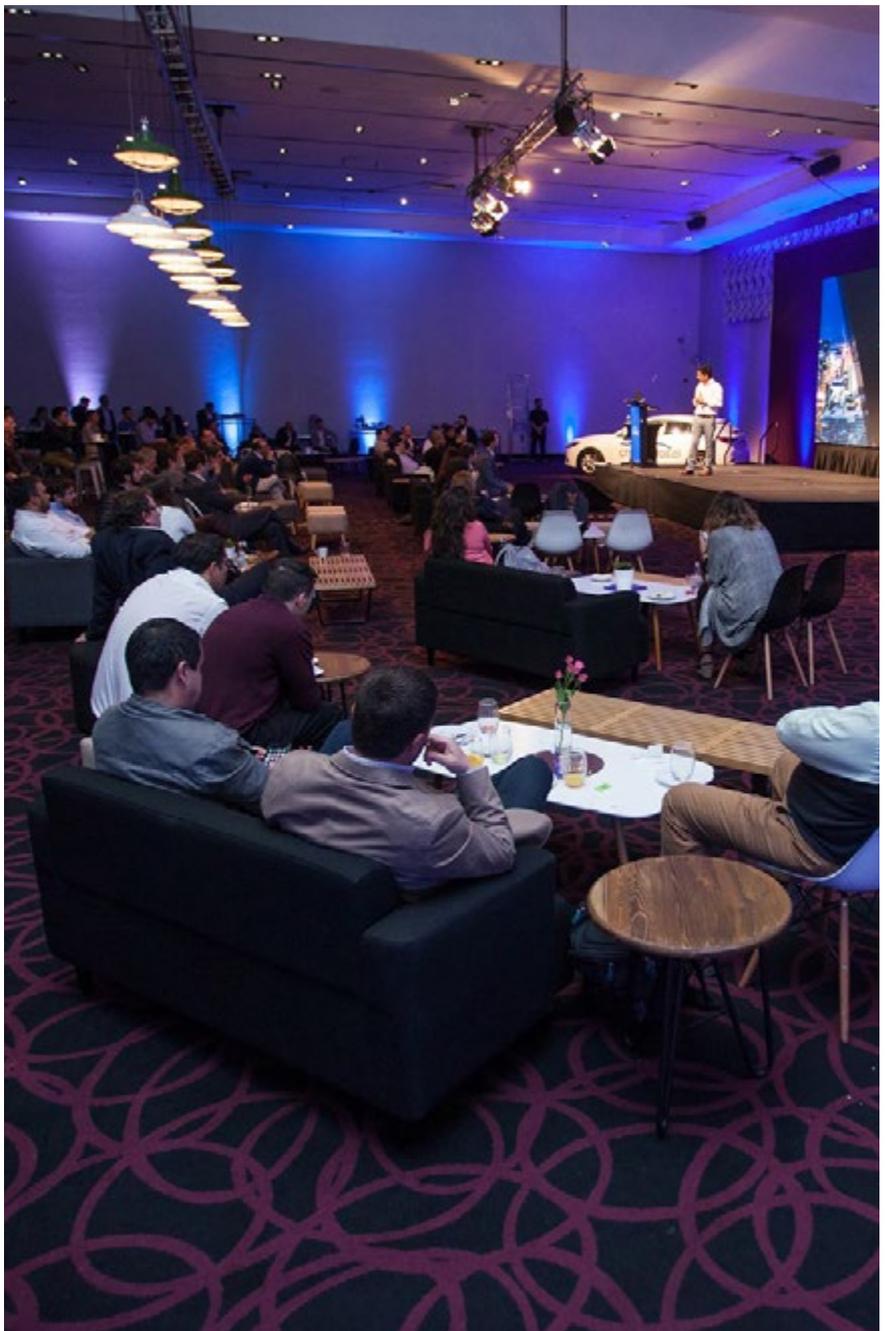
changes to position the business for sustained growth. Along with the Demotores website transitioning onto carsales technology, the important operational metric goals of traffic and inventory were redefined; traffic was refocused to ensure a sustainable organic base was used as the cornerstone and inventory, which increased over 70% year on year, was made a key focus.

December 2017 saw us increase the ownership of our Mexican business to 100%, along with the secondment of a senior carsales executive to Guadalajara to run the soloautos business. These two moves underpin the level of confidence we have in executing our long-term strategy not only in Mexico but also in each of our Latin American businesses. From an operational perspective, the highlights for soloautos were significant traffic and leads, which both grew at well over 200% year on year, with a strong focus on quality and sustainability.

In January 2018 carsales acquired the remaining 50.1% in our South Korean business SK Encar, from the SK Group, making it our biggest investment to date. SK Encar continues to deliver strong organic growth from its clear number one auto vertical position with its guaranteed vehicles and inspections products performing particularly well. SK Encar remains a significant opportunity to grow the business in Korea through increased dealer penetration, yield improvements and a focus on diversifying the revenue base through investment in display, data and adjacent market products over time.



In May 2018 we held our second International Conference with representatives from each of our overseas businesses attending. The sessions focused on harnessing and capitalising on the intangible assets of carsales and its people. This is already proving pivotal as we head into the new financial year.



# The carsales World

carsales.com Ltd

**Team: 544**

Offices: Melbourne, Sydney, Perth, Adelaide and Brisbane

tyresales

**Team: 20**

Offices: Perth and Melbourne

soloautos – Mexico

**Team: 62**

Offices: Guadalajara, Mexico City and Monterrey

Demotores – Argentina

**Team: 41**

Office: Buenos Aires

Stratton Finance

**Team: 235**

Offices: Melbourne, Sydney and Brisbane

RedBook Inspect

**Team: 52**

Office: Sydney

chileautos – Chile

**Team: 56**

Office: Santiago

Webmotors – Brazil\*

**Team: 168**

Office: São Paulo

SK Encar – South Korea

**Team: 169**

Office: Seoul

RedBook International

**Team: 29**

**China**

Office: Beijing

**Thailand**

Office: Bangkok

**Malaysia**

Office: Kuala Lumpur

**New Zealand**

Office: Auckland

\* Reflects minority shareholding investments.

## Expanding global network



Australia

**229,215**

Cars

Latin America

**562,908**

Cars

South Korea

**69,326**

Cars

For sale on carsales Group sites  
as at 30 June 2018

Country highlight

# Brazil

**406,554**

Cars for sale on Webmotors  
as at 30 June 2018

**28%**

Underlying revenue growth  
pcp

# The Automotive Year

Mike Sinclair, carsales' Director of Content, looks back at the Australian automotive year.



It's hackneyed to say the automotive marketplace is dynamic, but it's the truth.

Consider just the Australian automotive vertical in isolation – over 55 active brands, many with model lines-ups that verge on encyclopaedic. There are macro trends in terms of downsizing and body styles (did someone mention SUVs?). And then, there is the arrival or preparatory stages of what will be an inevitable step-change from internal combustion to the battery and fuel cell future...

The short version: there's no shortage of things to talk about; and a corresponding growing expectation from consumers that this massive cross-section of information is available on-demand.

In satisfying this demand, carsales' content team served more than 50 million editorial pages in FY18 in the auto vertical alone.

With an ever-increasing trend to video consumption, we provided almost 7.2 million minutes of editorial video to users at our sites. Add in the motoring.com.au YouTube channel and that compounds to around 23 years' worth in total!

Here's just a cross-section of the stories that made FY18, the automotive year it was...

# The Automotive Year continued

## Our journey for the past 12 months



carsales' own Daniel Ricciardo was on a roll as we raced into FY18. Five consecutive podium finishes had the young Aussie at the top of many F1 pundits' lists.

Grey: the automotive colour to have in 2017. Audi's 'Nardo Gray' was über popular with car-buyers who wanted to stand out without resorting to primary colours.

What has become a worldwide recall sadly hit home Down Under in July 17 when NSW Police announced a faulty airbag had been implicated in the death of a local driver. Takata would be an ongoing issue for the auto industry globally for all of FY18 and some time to come.

Holden delivers the Australian auto media its first prototype drive of the ZB Commodore, the all-new German-built large car it will launch in 2018, just two months ahead of its factory closure. Our initial impressions are pretty positive but we note that consumers will need some convincing.



Despite being given the green light to import low-volume, hypercars like the Bugatti Chiron, Australians will still be unable to register them under proposed new personal vehicle import rules. Confusion reigns – and to an extent it still does...

Another milestone of sorts as the Australian new car marketplace starts the final steps of migration from local production. In September, Victoria Police is the first Aussie force to announce it will go European for its choice of pursuit car – BMW gets the nod...

The end of an era... Toyota (October 6), then Holden (October 20) cease production in Australia. Although the writing had been on the wall, the finality of the last shifts and the last cars off the production lines hit home with the nation – especially so in the case of Holden. The last of over 7,687,000 Holdens was, fittingly, a V8-engined manual SS-V sedan. Red, of course.

Locally muscle-car production may have perished, but proof Australia is set to remain a performance orientated market isn't hard to come by. Our pitched battle between the first factory right-hand drive generation of Mustang and Kia's brand-building twin-turbo Stinger GT attracted significant audience and put more than a few noses out of joint.

## The Automotive Year continued



The profile of carsales Car of the Year has steadily risen and it's now, rightfully, one of the best recognised consumer new car awards Down Under. In 2016, controversially, it was taken out by an SUV for the first time... And in November 2017, it was another all-wheel drive that was awarded the top gong – the Land Rover Discovery

In time for Xmas, Holden revealed full specifications and pricing for its new Commodore -- a step change for one of Australia's most iconic new car badges. The fully imported Commodore has its detractors but judging by consumer engagement with our stories, there's no shortage of interest in the new Holden flagship. Promising improved efficiency, better refinement and a traditional 'big car' drive experience, the new Commodore's success will be a bellwether for Holden's relationship with Australians.

Who was 2017's largest automaker? The results arrived in January 2018 and probably surprised a few. With the addition of Mitsubishi's sales, the Renault-Nissan alliance overtook the Volkswagen Group to record a total of around 10.61 million units. Nissan accounted for more than half (5.82m), Renault sold 3.76m and Mitsubishi's tally was 1.03m. The Australian auto industry posted another record in 2017. According to official VFACTS figures, 1,189,116 vehicles were registered, surpassing 2016's all-time record of 1,178,133 vehicles by nearly 11,000 units, or just under one per cent.

History was made in February 2018 with Australia's first ever compulsory automotive recall. The volume of vehicles affected by potentially faulty Takata airbags globally is staggering – Down Under the proportion of the current fleet could end up as high as one in four. Issuing its first compulsory automotive safety recall, the Australian Government initially decreed around 2.3 million cars be recalled. That number has continued to grow.



Aussies love performance cars – and they adore utes... So, what about a very different sort of performance pick-up? Ford delivered that to Aussie off-road petrolheads in the shape of the twin-turbo desert-racing style Ranger Raptor and we went along for the ride in the prototype. Developed in Australia for the rest of the world, the Raptor sets new standards for one-tonne pick-up dynamic performance. Even at its elevated price tag, Ford has a hit on its hands.

For a brand in decline, even if only temporarily, to another that can do little wrong and is carving itself mass market share and new niches all at once... Hyundai's first hot hatch, the i30N arrived in Australia in Q1 of 2018. Designed and engineered of Hyundai's best and brightest, it served notice (yet again) of the marque's global strength... Our verdict: "This is a serious effort and expect other N models to follow to change the brand's image once and for all."

Ford emerged from more than 18 months of mourning following its Broadmeadows production closures to announce it was back into Supercars with Mustang. In a fillip for Australia's premier motorsport category Ford Australia boss Graeme Whickman officially confirmed the return of the marque to Supercars racing (in 2019) via DJR Team Penske and Tickford Racing. But it wasn't all good news for Ford, as the Federal Court fined the company \$10m over its handling of complaints relating to cars equipped with its PowerShift dual-clutch automated transmissions following a 2017 Australian Competition & Consumer Commission case against Ford.

That carsales cap bounded on to the top step of the Formula 1 podium in April – atop carsales ambassador, Daniel Ricciardo. Ricciardo picked off five top rivals in the closing laps of the 2018 Chinese Grand Prix in Shanghai with brilliant overtaking – the best of all a decisive final move on the Mercedes-AMG of Valtteri Bottas. It was carsales' global ambassador's sixth F1 victory, but not his last for 2018 – just weeks later, Ricciardo won at Monaco.

## The Automotive Year continued



It talked about bringing sexy back – we're not sure it ever had it... But Australia's number one car brand Toyota previewed a very different sort of Corolla as the new Japanese financial year kicked off. The new Corolla is evidence that in the post-local-production, post-fleet-dominated marketplace, Toyota needs to produce cars Australians want, not have, to buy... Dismiss Toyota's styling, marketing and engineering muscle at your peril.

Closing factories may not be good for your image or media/consumer sentiment scores but it appears to be good for your bottom line. In May Ford Australia announced it had returned to profit (just \$27m) for the first time since 2010, while GM Holden announced a \$156.8m after-tax profit for 2017. Just a few weeks later, Toyota followed suit announcing a \$137m after-tax profit for the 2017-18 Japanese fiscal year ending in March.

A famous Australian name is aiming high with its return to automotive production. Sir Jack Brabham won three world F1 championships and started a racing dynasty that continues today. And now the Brabham name will be borne by a supercar with the credentials to compete with McLaren, Ferrari, Lamborghini and others. The Brabham BT-62 was unveiled the UK but will be built in Australia. In small numbers, for sure, but with high tech, high precision and one would hope, high margins. Perhaps that's a way forward for auto manufacturing Down Under... Small scale, high desirability...

Perhaps the biggest smile of the FY18 was reserved for the boss of Alfa Romeo Australia, Steve Zanlunghi. After a rocky debut in 2017, the super-stylish, super-fast and occasionally furious Alfa Romeo Giulia QV returned to Australia's Best Driver's Car – and won. As automation continues its inexorable march into the automotive space, ABDC stands alone in finding the purest, most-engaging elements of the experience behind the wheel. At the pointy end of the Italian marque's global renaissance, the Alfa Romeo Giulia QV turned heads and won hearts. Bravissimo...

Country highlight

# Chile

**92,759**

Cars for sale on chileautos  
as at 30 June 2018

**40%**

Revenue growth pcp



# Our Brands

## Domestic

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## International

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\* reflects minority holding.

Country highlight

# Mexico

**34,395**

Cars for sale on soloautos.mx  
as at 30 June 2018

**82%**

Revenue growth pcp

## Promoting Our Brands

we sell *GOLFS* not tennis racquets!



**carsales**  
Australia's #1 for cars



Utilising the mass reach of sporting moments on Australian television for brand saliency coupled with the targeting power of digital and social the carsales brand program for 2018 ensured a presence and impact commensurate with Australia's no.1 which drove record traffic, growth and engagement.

Prominent perimeter signage throughout the entirety of the AFL and NRL seasons including State of Origin and the highly anticipated 'Ashes' summer of international cricket, ensured our presence during the most watched TV programs of the year. The heightened exposure of these events allows us to reinforce our leadership messaging and maintain saliency throughout the year.

carsales' international cricket signage was complemented by ongoing sponsorship of the Melbourne Renegades' male and female Big Bash League (BBL) squads. For the second year, the carsales brand was featured in a variety of prominent Renegade on-field assets; from the playing and training jerseys to on-ground and perimeter signage.

With Renegades' success we were able to capitalise on semi-final appearances averaging almost a million viewers per night.

Throughout the year the performance marketing team drove record results in terms of traffic and made solid gains around return on investment via our search engine marketing and remarketing programs, both domestically and around the globe for our portfolio of brands. A less visible form of marketing but equally the quintessential quiet achiever in the marketing mix driving traffic and conversions across the portfolio.

Early 2018 saw the renewal of our partnership with Daniel Ricciardo. The last 12 months have been an exciting journey following Daniel's Formula One World Championship quest from Melbourne through Europe, Asia, the Americas and the Middle East.

As was the case in season 2017, the carsales logo will continue to ride with Daniel on the chin of his helmet for every race of the season and on the side of his team cap for every media moment on race weekends.

Daniel was an integral part of our overall brand strategy to help Australians buy and sell a car with ease and confidence in 2017. He fronted our national out-of-home campaign that reinforced carsales as the number one destination for buying and selling a car and was at his charismatic best in the 'Auto Reply' video series.

We further leveraged Daniel Ricciardo through our 20th Birthday celebrations. Consumers were given the chance to win a trip for two to Austin to meet Daniel at the United States F1 Grand Prix. In addition, we also gave away hundreds of gift cards and Red Bull Racing caps.

The more they engaged with us, the more chances they had to win. The campaign was supported with a significant above-the-line presence in radio and out-of-home, as well as a range of digital executions. During the campaign period, we saw a lift in traffic with 2.3m additional sessions to the site and attracted thousands of entries.

**743,000** videos created

**4.1M** video views

**50** items of media coverage secured

**50,000** Social engagements



### AutoAds

In 2018 we took our marketing to a new level of personalisation launching AutoAds, an innovative campaign that gave every private seller the option to create and share a unique car commercial. Each ad included the seller's name, their car's make and model and photos, its odometer reading and price.

After listing their car on carsales.com.au, sellers received an email with five personalised ads. They were asked to select which 'car ad theme' best matched their second-hand wheels: Tough, City, Adventure, Family or Luxury.

Once they had chosen their AutoAd, consumers could share it with their Facebook community. By giving consumer's compelling, personalised content to enjoy, they willingly shared it with their friends and in doing so, endorsed carsales by spreading the AutoAds story.

Through mass personalisation and the creation of over 750,000 individual car commercials, AutoAds managed to achieve the reach and scale of awareness that is normally only possible through paid media, for free, within Facebook.

We supported the campaign with a small media budget across social channels and on our carsales network, as well as embedding all five of every seller's AutoAds within their ad listing for all potential buyers to enjoy.

Over the course of the eight-week AutoAds campaign, we improved preference for selling on carsales by six points compared to our competitors. AutoAds also improved the time to sell a car on carsales.com.au by 5.6%. Show Award and two Cannes Lions Advertising Awards in 2018.

In Mexico we further leveraged Daniel with a helmet changeover and outdoor campaign to support solo-autos and held a function with key customers in Mexico City.

The carsales brand was back in market again throughout Summer utilising radio, digital and out-of-home advertising to reinforce carsales as the number one destination for buying and selling a car and our laser focus on all things auto.

The trade marketing team focused on increasing the education offering to dealers and improving thought leadership in the industry. We introduced webinars and email short courses, in addition to continuing to publish whitepapers and various data insight-led products. In FY18 these included an update of The Journey to Vehicle Ownership, the carsales Communities Audience Segment whitepaper and our quarterly Auto Market Watch reports.

Our non-auto verticals have also enjoyed a strong year in terms of traffic performance and content evolution and strong brand metrics.

Verticals such as caravans, motorcycles and boats have very strong engagement. Especially pleasing is the growth of our largely B2B content verticals: trucks, farms and construction.

In these verticals and autos alike, there is a growing appetite for co-branded and sponsored content, which the team rolled out in beta format to meet the demand.

Carpool, the carsales lifestyle content stream now in its second year continued to go from strength to strength via our celebrity drive content series featuring host comedian Tommy Little and Aussie celebs such as Rebecca Maddern, Scotty James, Ella Hooper and our very own Daniel Ricciardo. This, coupled with the ever popular car hacks, aims to talk to those who would classify themselves as car drivers not car lovers. Equal parts entertaining and educational it extends the reach of our content to a wider & larger audience continuing to build our universal appeal.



# 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 2018.

## Operational and Financial Review

### Principle 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 (set out on page 34).

Our key services, customers and geographies include:

### Online Advertising Services

carsales Online Advertising Services can be broken into two key product sets – 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 (depth products) 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 Z, 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, Research and Services

The carsales divisions of RedBook, LiveMarket, DataMotive and DataMotive Business Intelligence provide various solutions to a range of customers including manufacturers/importers, dealers, industry bodies, and 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. It also includes the equity accounted associates RateSetter Australia Pty Ltd and available-for-sale accounted investment PromisePay Pte Ltd.

### International

carsales has operations in overseas countries through subsidiaries, equity accounted associate investments and available-for-sale financial assets as set out below (subsidiaries unless otherwise stated):

### *carsales Asia*

Online Automotive Classifieds:

- SK ENCARSALES.COM Ltd (operations in South Korea) – 100%
- iCar Asia Limited (operations in Indonesia, Malaysia and Thailand) – 13.1% (Available-for-Sale)

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%

### *carsales Latin America*

Online Automotive Classifieds:

- Webmotors S.A. (operations in Brazil) – 30% (equity accounted)
- carsales Mexico SAPI de CV (soloautos) (operations in Mexico) – 100%
- Chileautos SpA (operations in Chile) – 83.3%
- Demotores Chile SpA (operations in Chile) – 100%
- Demotores S.A. (operations in Argentina) – 100%
- Demotores Colombia S.A.S. (operations in Colombia) – 100%

## Group Financial Results

FY18 was a strong year of financial performance across the Group. It was marked by both evolution as we continue to strengthen our domestic market position and deliver on our strategy of growth in core digital advertising and data services and complementary adjacent businesses. It also saw transformation in our international markets with the acquisition of the remaining 50.1% of SK ENCARSALES.COM Ltd (SK Encar).

FY18 was another year of record financial performance with Group operating revenue rising to \$444.0m, up 19% on the prior comparative period (pcp).

Group earnings remained solid with EBITDA up 16% on pcp to \$204.6m and EBITDA margins of 46%.

Excluding the impact of the acquisition of SK Encar, revenue and EBITDA grew 12% and 8% on pcp respectively.

Adjusted NPAT attributable to the owners of carsales.com Ltd was \$131.0m, up 10% on pcp. Reported NPAT attributable to the owners of carsales.com Ltd was \$184.8m, up \$75.3m on pcp, principally reflecting the fair value gain recorded on the step acquisition of the remaining 50.1% of SK Encar.

The Directors believe the additional information on International Financial Reporting Standards (IFRS) measures included in this 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 certain non-recurring or non-cash items relating to financing, investments and acquired intangible amortisation from the reported IFRS measures. A reconciliation of reported net profit to adjusted net profit is set out in Note 6.

## carsales Domestic Highlights

Core domestic segments of Online Advertising Services and Data, Research and Services exhibited good revenue growth of 10% and 7% respectively, reflecting a solid performance from core digital advertising products.

Growth was supported by an acceleration in our adjacent businesses (particularly tyresales and RedBook Inspect) and premium listing/depth products across both dealer and private sellers.

### Online Advertising Services

- Dealer revenue was up 8% on pcp to \$143.9m reflecting both solid growth in revenue from traditional transactional revenue products (subscriptions, leads and listings) as well as continued growth in the demand for premium listing and depth products. This was supported by new product initiatives such as SMS lead delivery, codeless calls and the AutoGate launch app that drive better outcomes for dealers.
- Private revenue was up 21% on pcp to \$78.9m reflecting both strong growth from adjacent markets (particularly tyresales and RedBook Inspect) and yield enhancements in core private online ads, which benefited from the implementation of price tiers and an increase in the take up of premium listing products. Time to sell for private sellers continues to reduce year on year, supporting carsales, value proposition.
- Display revenue was up 3% to \$72.8m which was a resilient result in a competitive market. Our insights and analytics capability continues to be integrated with the core display product set making our products stickier and enabling better targeting of our solutions. Our relationships with OEMs continue to improve across the board with refreshed products such as mobile video display ads, certified pre-owned programs and 'Main Events' continuing to deliver significant value for customers.

## Data, Research and Services

Data, Research and Services revenue was up 7% to \$41.9m. There was continued demand for our Data, Research and Services from OEMs, with the business drawing on its investments in data and analytics to address changing customer needs in an increasingly data driven market place. There was continued solid growth from LiveMarket, driven by volume growth and yield. Our RedBook business continues to expand its product range, with the launch of our new warranty product, and increase capabilities to display solid growth.

### Finance and Related Services

Finance and Related Services revenue was up 24% to \$68.4m, with gross profit up 11% on pcp to \$49.9m. This reflected solid growth in core finance revenues of 10% to \$46.5m and strong growth in low margin other products revenue of 66% on pcp to \$21.9m. The volume of loans and average loan value financed grew between FY17 and FY18, but was offset by lower yields being achieved on reduced average volume bonuses. The second half experienced a more challenging lending environment, particularly as lenders start responding to the impending ASIC Finance and Insurance regulation changes and potential outcomes of the Banking Royal Commission.

## Domestic Operations

Costs were well controlled across the business leading to EBITDA up 16% on pcp to \$204.6m. EBITDA margins declined slightly from 47% to 46% reflecting the growth of lower margin products and investment in the cost base for future growth in the Finance segment, and the increased contribution of lower margin adjacent services, particularly tyresales and RedBook Inspect. Underlying core domestic business margins improved 1% on pcp. Depreciation and amortisation increased by \$7.4m on the prior period reflecting acquisition intangible asset amortisation and depreciation of capitalised labour supporting group wide integration and globalisation projects. Net finance costs fell by \$0.4m to \$6.5m driven by gains on non-cash non-controlling interests option fair value movements partly offset by increased cash interest costs on higher average debt levels through the year after the acquisition of the remaining 50.1% of SK Encar in January 2018.

## carsales International Highlights

carsales holds a number of investments across the Latin American and Asian regions. The international business segments in total contributed \$38.1m to Group revenue – up 359% on the prior year.

## carsales Asia

The major investment in the Asian region is in South Korea (SK Encar) which was 49.9% owned by the Group until January 2018 when the remaining 50.1% of the business was acquired for \$243m and the business became a subsidiary. SK Encar delivered a solid result with FY18 underlying local currency revenue growth of 15% on pcp and EBITDA growth on pcp of 10%, with growth rates accelerating in the second half positioning the business well for the future. The Company also operates its RedBook data business throughout Asia which showed solid revenue growth of 11% on pcp.

## carsales Latin America

The Group's largest investment in the Latin America region is in Brazil (Webmotors) which the Group owns a 30% stake in Webmotors recorded very strong growth in underlying local

currency full year revenue and EBITDA of 28% and 81% in FY18 on pcp respectively, supported by improving economic conditions and dealer education regarding the value in Webmotors premium offerings.

The Company also holds controlling interests in online automotive advertising companies operating in the Latin American region in Mexico, Chile and Argentina which positions carsales as the number one automotive classified network in Latin America. Given the significant opportunity in this region, our focus is to grow market leadership and strengthen product and technology capabilities through implementation of carsales' IP and technology and the success of this strategy has been demonstrated through revenue growth of 68% on pcp to \$8.2m across the region and improved operating metrics in each business.

## Outlook

Our domestic core business performance in July has remained solid. We expect our domestic adjacent businesses to continue to build scale and complement this growth similar to FY18. We also expect our premium listing and promote products to continue to grow.

We anticipate revenue, EBITDA and NPAT growth will remain solid in the domestic core business. Assuming market conditions are stable, we also anticipate a solid performance in our Finance and Related Services business.

Assuming market conditions remain stable in Brazil, we anticipate continued strong local currency revenue and earnings growth in FY19 for Webmotors. In South Korea, we are expecting solid revenue and earnings growth in FY19 for SK Encar.

Integration of core carsales IP and technology into our Chilean, Mexican and Argentine businesses will continue. In Chile we expect this to drive a good uplift in underlying revenue and earnings in FY19. In Mexico and Argentina, we expect this to drive good growth in revenue and key performance metrics in FY19. However, we are also planning continued investment in technology, marketing and innovation in these businesses to aggressively pursue clear market leadership.

## Risk

Being a complex business operating 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 motor vehicle dealers and automotive manufacturers (OEMs) – carsales derives a significant proportion of its revenue from motor vehicle dealers and 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, or constrain carsales' ability to command market-leading prices for products and services.
- 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 could have a negative impact on carsales' earnings.

- Cyber Security – the cyber threat to companies around the world is growing and unrelenting, 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 cyberattack or hack of carsales’ systems could have serious impact on the Company’s reputation, operational and financial performance.
- Information Technology – carsales’ business operations rely on owned and 3rd party IT infrastructure and systems, including reliance on Amazon Web Services and other cloud service providers. 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.
- Financial Regulations and credit availability – the Group is exposed to various regulatory environments across the markets and geographies in which it operates. In particular, the Stratton Finance Group must comply with applicable financial legislation (such as the National Consumer Credit Protection Act) as well as relevant ASIC instruments. Changes to regulations in the future, or a reduction in the availability of credit from Stratton’s lending panel could result in a material reduction in finance related revenues and profitability.



# Our People and Our Culture



carsales has maintained its reputation as a fast paced and dynamic workplace. We have achieved this through our passionate people who are the foundation of carsales' success via innovation, collaboration and in the delivery of our products and services.

The focus throughout FY18 has been to continue to foster a healthy and sustainable workplace environment; one which enables our people to continually improve and grow. We are proud to offer an enviable workplace culture that is reflected in each and every carsales workplace.

carsales has been able to ensure continuous business growth by implementing the latest technology, ensuring there are strategies in place that support sustainable growth and, most importantly, by listening to our people. Throughout the year, we have been pleased to establish regularly check in opportunities via multiple channels. These include hosting an International Conference in Melbourne, rolling out annual Engagement Surveys across the board and Round Table Discussion Groups which foster open and honest conversation between all people within the Company.

These communication platforms contribute to how the Company is able to recruit, reward and enable ongoing success of our people.

The carsales investment in its people is underpinned by a set of unique values and behaviours that stem from our EnRICH philosophy. These values foster an environment which supports all people to reach their full potential while delivering value to the community and our shareholders.

All of the team at carsales are aligned to these guiding qualities. Throughout the year, our recognition program celebrates individuals who bring our vision, purpose and EnRICH values and behaviours to life in everything they do.

These values have been part of carsales' fabric for the past 21 years and are in no way limited by geographical location. Through EnRICH, carsales has continued to build a better business.



**Michael Chindamo, User Experience Lead**

"Whether it be innovation when we communicate throughout a project, research a problem, collectively brainstorm or user test a design solution, the end result of anything we create, produce or deliver has innovation encapsulated at the very core in many forms and different levels."

**EnRICH**  
STANDS FOR:  
ENJOYMENT RESPECT INTEGRITY  
COMMUNICATION HONESTY



## In the community

As carsales continues to evolve and expand, so has our commitment to leave a positive impact on the various areas of the world we touch. This includes the research and development of products and services that simplify life for customers and by continuing to invest in our people.

Our teams are passionate about community engagement and have used their Community Day to participate in the RSPCA Million Paws Walk, volunteer at St Kilda Mums and the Hamodova Cafe. Our people have used their community hours to mentor students at Monash University in the final years of their study.

As a technology business, our team has devoted a significant amount of time by working with the community to help demonstrate what careers in technology can look like.

With a particular focus on improving and maintaining connections with young women, our people and culture team had have developed a strategy and educational program to develop talent and boost interest in technology-based careers.

## Bringing tech to the community

The carsales team are agents of change, both in the workplace and in the community. carsales is first and foremost a technology company and our people are passionate about sharing their knowledge and skills with internal and external communities.

One of the ways we are achieving this has been through the creation of technology learning programs, which include:

- Kids Coding Camp: launched in 2018, this event attracted 43 participants (21 females and 22 males) between the ages of six to 13 years. Across two days, participants learned the fundamentals of coding, took part in interactive tech-based workshops and heard from our tech industry leaders on what a career in technology at carsales can look like.
- Go4Tech: this workshop series is an opportunity for employees in technology to share their knowledge and passion with their colleagues. Workshops were focused on coding and beginner-level tech functionalities. More than 240 employees have taken part in these sessions.

The Company has been able to continue to empower those in the community, with a particular focus on supporting young women to understand what a career in STEM can be. Throughout the last 12 months, carsales has created a network of inspired and passionate individuals, who have developed and led educational programs for varying age and skill level, to see what working in technology can encompass.

At carsales 2018 has seen a profound shift in how our people in technology share knowledge. An example of this is where our people have proudly volunteered time and industry experience to develop comprehensive education modules and workshops for young women at Melbourne Girls

College, in Richmond. These workshops have provided an incredible opportunity for both carsales people and Melbourne Girls School to come together with a common purpose of supporting the next generation of leaders in the digital industry.

## The carsales Foundation

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 our registered charity and is another way for us to connect with our community. We do this in two ways, education and our community grant program.

We are proud to support young people through education and we offer a scholarship to support this.

## Our People and Our Culture continued



**Tam Cao, AI Software Engineer**

In the carsales AI team, we embrace innovations. It is in our DNA. Every day, we are constantly looking for and applying the latest innovations and technologies to bring the best possible services to our users and customers. From simplifying the listing process to making suggestions on how our users can increase their chance of getting as much as they can for their listing or even protecting them from online threats while using our services, innovation opens up a world of possibility. We believe that innovation is the only way forward in the fast evolving digital market place that carsales is in.

In 2018, this fund was allocated to a 'Women in IT Scholarship' at Swinburne University. Through this scholarship, we have been able to financially empower a woman to undertake tertiary education that will support a career in the technology industry.

Currently, women are underrepresented 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 has provided internship experience to the scholarship recipient and she has successfully gained a place in our 2019 carsales Next Gear graduate program.

carsales was also an active member of the Campaign for Marriage Equality and began a multi year sponsorship of the Ally Award at the annual LGBTI Awards.

### Our 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 shared values and behaviours at their core.

carsales is always looking at ways to provide more opportunities for its people to learn and we work hard to provide a diverse environment that is inclusive and collaborative, with a strong social conscience.

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 our diversity strategy.

A sense of pride exists within each and every carsales employee, when it comes to the embodying our diversity commitments. It has become part of our everyday life at carsales.

We believe that everyone has a role to play in creating a successful flexible working arrangement, from employees taking control of a work/life balance to our leadership team recognising the benefits of working flexibly and supporting those who have opted for these arrangements.

We support employees in requesting arrangements that allow for flexibility around where, when, and for how long they work. Some examples include: varying work hours, working from home, time off in lieu, flexing to part-time, and working different hours at different times.

We have accommodated stepped retirement plans, staggered return to work following parental leave and serious illness, and absence from or reduced hours of work to accommodate approved career-related studies.

In 2018 we again showed our commitment to flexibility by introducing more initiatives such as a School Holiday program in our Richmond office, and more flexible leave options including: increasing our paid parental leave; increasing access to personal leave; and providing early access to long service leave.

### Gender Equality

From 2015, carsales been a Workforce Gender Equality Agency (WGEA) Employer of Choice. The citation is in recognition of our systematic and strategic approach to the journey of achieving a gender diverse workplace. We see that it sets the very minimum that we must achieve moving forward and we will always work to exceed the expectations of WGEA year on year.



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

Objectives	Initiatives	Outcomes
Continue to grow the number of women in senior roles and professions where women are traditionally under represented.	Ongoing unconscious bias education of managers on the importance of a diverse workforce and an executive-led Diversity Steering Committee. Maintaining quotas for recruitment shortlists. Reviewing all job advertisements for gender bias.	In FY18 43.8% of appointments were female, 62.5% of and the managerial appointments were female. Executive Leadership Team is comprised of 30% females.
Continue to implement career development programs to prepare women within the business to take on more senior roles.	Current initiatives include training and development programs including communication, presentation, management and influence skills training. Continued the Next Gear Graduate Program creating coaching and development opportunities.	Development programs had 39% female attendance. 44% of promotions in FY18 were female staff members. Our 2019 Next Gear Graduate program intake has a 50/50 gender split.
Foster an inclusive culture and environment in which women network and mentor each other to progress their careers within carsales.	We have a carsales mentor program available to all of our people. We support various women's networking groups including sponsoring events such as Changing the Ratio and women in tech events. Delivered Coding 101 workshops for our people as well as formed a team of women to work with local schools to encourage increased participation of females in STEM. Celebration of International Women's Day.	The FY18 mentor program had 40% female participants. Female networking groups hosted several sessions throughout the year and the business collectively celebrated International Women's Day investing in an inspiring female world champion guest speaker.
Continue to enhance flexible workplace arrangements for both women and men. Enabling our people to manage work/life commitments and preferences.	In FY18 we made significant advancements in our flexible leave options including: <ul style="list-style-type: none"> <li>• Increased paid parental leave from 12 to 16 weeks (plus five additional days of paid leave during the first months returning to work to assist with the transition).</li> <li>• In addition to our two weeks paid leave for secondary caregivers, we have also provided access to an additional 10 days of sick / career's leave.</li> <li>• Introduced the ability to purchase additional one or two weeks of annual leave per year.</li> <li>• Provided for early access to long service leave after seven years of continuous service (usually 10 years depending on state legislation).</li> </ul>	In FY18, 24 members of the carsales team took parental leave and carsales is currently supporting nine team members returning from a period of parental leave with formal flexible working arrangements.

## Our People and Our Culture continued



In September 2017, carsales was proud to become one of 122 Australian employers formally recognised as a White Ribbon Workplace Accredited workplace. This accreditation recognises our commitment to preventing violence against women and has enabled us to be a leader in continuing the conversation to call out inappropriate behaviour in the workplace and society.

Becoming a White Ribbon accredited workplace has seen carsales strive towards a continued positive workplace culture for all our people with an emphasis on highlighting policies, procedures, training and open communication. All these elements contribute to an environment that addresses gender inequality and empowering our people to recognise and educate their peers and those around them to the importance of preventing and standing up to gender-based violence.



Through our accreditation, team members who may be experiencing domestic violence or a family crisis have immediate access to up to five days of paid leave for the purpose of seeking medical, legal or psychological assistance; attending court appearances; counselling; participating in an immediate family member's rehabilitation; relocation; or to make other safety arrangements.

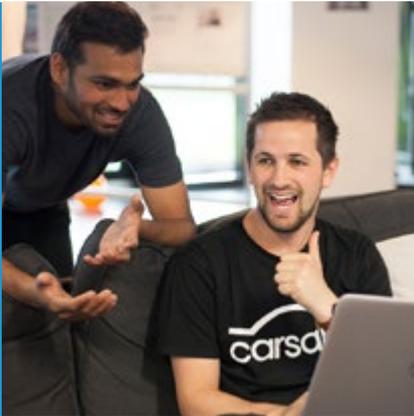
Most recently, in May 2018, our CEO, Cameron McIntyre endorsed the Victorian Government's Respect Women: Call it out campaign. This campaign is the first of its kind and encourages Victorian men to intervene and call out sexism and gender inequality. This is an extension of the ongoing programs carried out at carsales.

This financial year has seen carsales seek new opportunities to create meaningful relationships with the wider Australian community. An example of this has been with the recent partnership with WISE Employment. carsales has proudly collaborated with WISE Employment to find opportunities for their clients to move towards safe and stable employment. This partnership has seen numerous employment opportunities open up within various departments and teams within the Company, with more recruitment opportunities to be explored in the new year.



**Trudi Sampola, Marketing Transformation Director**

"This year I am leading the development of a global creative framework. This approach will be the building blocks to align our global marketing efforts and in turn, add value and smarts to each international office and their local marketing programs. This is innovation that drives value for all our carsales global businesses."



**WISE Employment**  
empowerment through employment

The decision to partner with WISE Employment was simple. WISE Employment is passionate about providing support and services that empower all people within the community to find employment, regardless of their personal challenges. Wise Employment has tailored employment programs, initiatives and workshops to support its clients to find meaningful work which in turn continues to ensure carsales attracts and retains top talent throughout the business. Through this partnership, carsales hopes to continue to build on its culture of equal opportunity and ensuring all our people continue to adopt a non-biased attitude when it comes to diversity in the workplace.

**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, leadership development, conferences, online learning plus internal and external training programs.



**Lauren Smith**  
Head of Product  
– Media & Agency

Innovation at carsales is fuelled by data, customer insights, and collaboration.

We use product BETAs in partnership with key brands who share our passion for innovation, to test, learn, iterate and create premium media solutions that deliver real results.

Playing to our strengths has enabled us to be one of the most innovative publishers in this market, with products that deliver a great experience for our audience, return on investment for our partners and scalable solutions that can serve the carsales business locally and abroad.

This year, more than 5,802 hours of training was provided to our team.

carsales' Expert Series is one of our most successful learning and development programs. This is a series of sessions run by internal experts designed to share best practice, improve knowledge and understand department and industry developments and strategies.

Some of the Expert Series run in FY18 includes Coding 101, Tone of Voice, Voice of Customer and Understanding the International Business.

We invest in innovation and creating a business for the future. We are committed to providing an attractive workplace for the next generation and we are proud to offer career progression opportunities.

As a global business, we now have pathways that enable people to move across our office locations.

This year we have seen our people based in Australia take on both long and short-term working opportunities overseas.

## Our People and Our Culture continued



Looking locally, carsales has grown its leadership program, with a refreshed focus on supporting our leaders to continue to support high-performing and vibrant teams. In addition, we provide training and development programs, with an emphasis on communication, presentation and management training.

### Hackathons

carsales encourages innovation and disruption from within. carsales Hackathons are a great example of this.

Twice a year we give our team creative freedom to spend three days generating concepts and working prototypes to benefit the Company, our customers and our consumers. A number of Hackathon initiatives have already been developed and implemented into our range of products and services.

The carsales Hackathons have become collaborative events, with teams including people from a variety of teams. These events are vital to building our employee engagement and connecting with the wider community.

The June carsales Hackathon introduced its first Community Award where members of the public were invited to experience the event, share consumer insights and select a winner.

### Graduate Program

carsales' Next Gear graduate program was kicked off in FY18. The 18-month program has two separate streams in our Commercial and Technology areas and is an opportunity for individuals at the beginning of their professional journey to make a real impact in roles and projects that will help grow the carsales business.

Our graduates work through three rotations across their 18-month paid internship and receive individual mentoring, a rotational buddy and constant professional learning opportunities and support from their peers and the wider senior leadership team. Our graduates receive exposure across the carsales portfolio and have already made a real impact and contribution to the culture and Company.

### Health and Wellbeing

carsales strives to ensure all team members live balanced and fulfilling lives.

We foster four pillars of health (mental, physical, emotional and financial) to support this across our employee community.

A Health and wellbeing events that run throughout the year and across our Australian offices include: boot camp, pilates, yoga, meditation and financial education.

Furthermore, our people are passionate about taking health and wellbeing into their own hands and have created social running groups and year-round team sports, including pool and table tennis competitions.

Country highlight

# Argentina

**29,200**

Cars for sale on Demotores  
as at 30 June 2018

**232%**

Revenue growth pcp



# Corporate Governance

carsales is committed to being ethical, transparent and accountable in everything that it 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 FY18 Corporate Governance Statement addresses the recommendations contained in the third edition of the ASX Principles and Recommendations and is available on our website at [bit.ly/esg-reprt](http://bit.ly/esg-reprt).

# Environmental, Social and Governance Report

This year we launched our first Environmental, Social and Governance (ESG) Report, 'Driving the future: Our sustainable business'. At carsales, we take our ability to have a positive impact on society extremely seriously. We want carsales to be known for behaving fairly and responsibly, earning the trust put in us by our customers, employees, shareholders and the community in general.

carsales' approach to assessing, mitigating and managing ESG risk is overseen by the Company's Board and managed by the carsales' Executive Leadership Team. The Company also has an ESG working party that advises management on ESG issues and undertakes the Company's reporting.

The Board is responsible for establishing and overseeing the Company's risk management framework. It has delegated the specific duty of developing and monitoring compliance

with risk management policies to the Board's Audit and Risk Management Committee (ARMC).

Read the full ESG report "Driving The Future: Our Sustainable Business" on our Corporate Governance page of the website at [bit.ly/esg-reprt](http://bit.ly/esg-reprt).

# Our Environmental Commitments

We are consciously building a sustainable business. We understand that resources are finite and it is important for us to protect the world in which we operate. While the nature of our business has a low environmental impact, and we are not subject to any specific environmental legislation, we aim to minimise our environmental footprint.

We seek to manage our impact on the environment by monitoring and reducing resource use, maintaining carbon neutrality, having regard to the sustainability of our supply chain and occupying and creating innovative and sustainable workplaces. carsales actively supports environmental awareness campaigns and is a signatory to Sustainable Victoria's Take2 campaign. We aim to design and rent premises in line with sustainability best practice, to continually improve our sustainability practices, and to partner with suppliers with high quality sustainability practices.

Our goal is to lower our environmental footprint by utilising a number of measures to minimise waste, consumption of materials, energy and water, including employing sustainable cleaning, waste and recycling practices, including using recycled materials and removing personal waste paper bins from desks to ensure all waste is recycled in the correct manner. As a business we only purchase 100% recycled paper and enforce printing limits including default double-sided, black and white printing.

Since one of our main environmental impacts is our office footprint, we have worked with our landlords to create sustainable workspaces. We have installed low wattage, low energy, power efficient globes; use lighting sensors to ensure lights are turned off when not in use; and employ zoning air conditioning to reduce power or switch off outside office hours.

We have installed filtered water taps in offices to reduce the purchase of bottled water and supply crockery and steel cutlery to all employee hubs and tea points within our offices to reduce disposable consumables, and have installed water efficient dishwashers and efficient bathrooms.

Our head office in Richmond, which houses the highest number of our people, is certified as a 4.5-star NABERS-rated building while our state-of-the-art Sydney premises are yet to be certified.

We have installed video conferencing facilities and use Skype for Business across the Company to connect sites and reduce the need for travel and promote recycling of battery and mobile phones to reduce landfill. Our use of green IT and cloud-based solutions has lowered our environmental footprint significantly.

## Data centre efficiency

Our move to cloud-based solutions such as Amazon Web Services (AWS) helps deliver on our commitment to reduce our environmental footprint. Our key partners AWS and Equinix both are publicly committed to power their data centres with 100% renewable energy.

By working with AWS and Equinix, we benefit from their continuous desire to increase the energy efficiency of data facilities and equipment, the innovation of the design and manufacture of servers, storage, and networking equipment to reduce energy.

AWS has a long-term commitment to achieve 100% renewable energy usage for its global infrastructure footprint. AWS also focuses on reducing water usage in its data centres, and evaluating climate patterns for each AWS region to select the most energy and water efficient cooling method. It is also implementing on-site water treatment technologies that allow it to further reduce water consumption and AWS utilises non-potable, recycled water for cooling when possible.

## Our Board



**Richard Collins**  
Non-Executive  
Chair

Richard has been a Director of carsales.com Ltd since 2000. 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).

Richard has long acted as the voice of the automotive dealer on the Board, providing insight into the Company's largest customer segment with a distinguished career as a dealer principal and a business operator.



**Cameron McIntyre**  
Chief Executive  
Officer and  
Managing  
Director

Cameron was appointed Managing Director and CEO of carsales.com Ltd in 2017. Prior to this, Cameron held the positions of Chief Operating Officer (since October 2014), and Chief Financial Officer and Company Secretary for the previous seven years, including for the IPO of the Company in 2009. Cameron has over 25 years of finance and operational experience. 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).

Cameron brings unparalleled knowledge of the business and significant experience in strategy and management to the Board.



**Wal Pisciotta**  
OAM  
Non-Executive  
Director and  
Co-Founder

Wal has more than 35 years' experience in supplying computer services to the automotive industry. Wal holds a Bachelor of Science degree in Business Administration from the University of Alabama (United States) and was the Chair carsales.com Ltd 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.

Wal brings to the Board extensive knowledge of the IT needs of the automotive industry as well as his extensive knowledge of the business, having been a driving force from its inception.



**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, Director of The Sax Institute. Recently Kim has joined the Board of Marley Spoon and was appointed chair of Beem It. 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.

Kim provides an abundance of experience and knowledge in the advertising and marketing industries. Kim also has extensive experience on ASX listed Boards, including as Chair of Remuneration Committees.



**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 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 brings immense financial and regulatory expertise to the Board, Chairing the Audit and Risk Management Committee. Pat also provides the Board with insights relating to operations of global companies.



**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 – 2015. Edwina holds a Bachelor of Laws and Bachelor of Arts from Sydney University and practiced commercial law before moving into the automotive industry.

Edwina brings significant OEM knowledge along with experience operating dealerships with a 'digital first' marketing approach. Edwina's background in law also contributes to the regulatory capabilities of the Board.



**Kee Wong**  
Non-Executive  
Director

Kee is an entrepreneur with a background and qualifications in Engineering, Information technology and Business. Kee has started several businesses and has made investments across a number of industries which include technology, services, retail, food and beverage, trading and property.

Kee has experience in IT and management consulting and was a senior executive at IBM running part of its e-business group in the Asia Pacific region, including Australia and New Zealand. He is founder and managing director of e-Centric Innovations, an IT/Management consulting firm operating in Australia, Malaysia and Singapore.

Kee's appointment enhances the Board's knowledge of technology and product as well as providing valuable insight into markets outside of Australia in which the Company operates.



**Steve Kloss**  
Alternate Non-  
Executive 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.



**Nicole Birman**  
Company  
Secretary

Nicole is an experienced corporate lawyer who holds the position of General Counsel and Company Secretary at carsales.com Ltd. Nicole has a Bachelor of Laws (Hons) and Bachelor of Arts from Monash University. Before joining carsales, Nicole acted as in-house legal counsel for Medibank Private and REA Group. Previous to this Nicole worked for Minter Ellison, one of Australia's premier legal firms where her areas of specialty included intellectual property law.

## Our Executive Leadership Team



**Cameron McIntyre**  
Chief Executive Officer and Managing Director

Cameron was appointed Managing Director and CEO of carsales.com Ltd in 2017. Prior to this, Cameron held the positions of Chief Operating Officer (since October 2014), and Chief Financial Officer and Company Secretary for the previous seven years, including for the IPO of the Company in 2009. Cameron has over 25 years of finance and operational experience. 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).



**Jo Allan**  
Chief People Officer

Jo is the Chief People Officer at carsales.com Ltd. She joined the business in 2008 and is responsible for all aspects of people and culture across the carsales network. She has over 15 years' experience holding senior roles in people and culture, remuneration, communication and has extensive experience in major transformation programs. She has built the people and culture function at carsales to what it is today and holds a Bachelor of Business and a Bachelor of Communication from Monash University.



**Paul Barlow**  
Managing Director – International

Paul joined carsales in 2009 and is responsible for carsales' international growth strategy and operations. Paul is a Director of SK Encar in South Korea, Webmotors in Brazil, soloautos in Mexico, chileautos in Chile and Demotores in Argentina as well as tyresales. Paul has been involved in technology solutions in the automotive industry since 1988 and over 20 years in the online classifieds space including co-founding a digital start-up and leading it through acquisition. Paul has a Masters in Business Systems from Monash University.



**Ajay Bhatia**  
Managing Director – Consumer

Ajay is the Managing Director of the Consumer Business and leads the group that brings together all consumer facing parts of the business. Ajay was previously the Chief Product and Information Officer, responsible for all aspects of product management, software development, infrastructure and IT operations. Ajay 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. Ajay was awarded Australian CIO of the year for 2015 by CEO Magazine Ltd.



**Nicole Birman**  
General Counsel and Company Secretary

Nicole is the General Counsel and Company Secretary of carsales.com Ltd. Nicole is an experienced commercial lawyer, having practised law at one of Australia's premier law firms before moving to work in the legal functions of some of Australia's most prominent businesses. For the past 10 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.



**Jason Blackman**  
Chief Information  
Officer

Jason is responsible for all technology decisions across the Company to streamline the carsales business both domestically and internationally. Jason joined carsales in 2012, becoming CIO in 2017. He has experience across a variety of industries, including digital media, utilities, manufacturing, finance and defence in both Australia and New Zealand. Jason holds a Bachelor of Accounting from the University of South Australia, a Bachelor in Technology from RMIT.



**Kellie Cordner**  
Chief Marketing  
Officer

Kellie Cordner is the Chief Marketing Officer at carsales.com Ltd. Joining the business in April 2015, Kellie is responsible for all aspects of Marketing and Content across the carsales portfolio. Kellie holds a Bachelor of Business degree from Monash University. She has over 20 years experience in a range of senior roles in Marketing, Product & Strategy across the retail and media industries. She has been a member of the Monash University Marketing industry advisory board for the past 5 years.



**Andrew Demery**  
Chief Financial  
Officer

Andrew joined carsales.com Ltd as Chief Financial Officer in December 2014. Prior to joining carsales Andrew held a number of roles with PricewaterhouseCoopers in both Australia and the UK providing a wide range of assurance, capital markets and consulting services across the media, telecom, technology and travel industries. Andrew is a member of the Institute of Chartered Accountants of Scotland (CA) and holds a degree in Physics from the University of London.



**Michael Holmes**  
Executive Director  
– Dealer

Michael is responsible for the thousands of carsales dealer customers across Australia. He was previously General Manager - Dealer Sales and Development at carsales. A 25-year veteran of the Australian motor industry, he has been with carsales since 2013. He was previously Motor Dealer Manager for Allianz, National Sales Director of Fairfax's Drive.com.au, National Manager of Motor Trades Division for QBE Insurance. Michael also worked in the retail motor trade (metro and regional) for over 7 years, as a Finance and Insurance Manager. He is currently studying for his MBA and is a member of Advisory Boards for three separate start up digital ventures.



**Anthony Saines**  
Managing Director  
– Commercial

Anthony runs the B2B arms of the carsales domestic business, incorporating the operations of our commercial facing businesses and including the revenues and relationships with dealers, manufacturers and media agencies. Anthony was previously Director – Media and OEM at carsales. Anthony holds an MBA and since moving to Australia has held a number of senior roles in the online advertising industry. Anthony is a long-standing 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 and a Board role at Adstream Pty Ltd.

# Our Remuneration Chair's Letter



Dear Shareholder,

On behalf of the Board, I am pleased to present the Remuneration Report for FY18.

Over the past twelve months, I have continued to enjoy speaking with a wide variety of stakeholders and hearing their views on what information shareholders want to see captured in our Remuneration Report. As a result, you will see more changes to our Remuneration Report this year, as the Remuneration and Nomination Committee continues in its objective to deliver information to our shareholders in the most effective and meaningful way possible.

Following the valuable feedback we received from our shareholders and their representatives over the past 12 months, we will be making some changes to the long-term incentive plan for FY19. These changes include using face value rather than fair value for the allotment of performance rights, and replacing NPAT with earnings per share in the financial performance measures. In addition to this we have commenced the disclosure of our LTI awards targets on a prospective basis, starting with the FY18 incentive plan.

Set out below are some of the key remuneration outcomes which occurred during the FY18 financial year.

- There were no changes in the remuneration packages of any Senior Executive during the reporting period. With the appointment of Cameron McIntyre in March 2017 and subsequent re-structure of the executive team along with their responsibilities, the most recent change in remuneration was effective from 1 April 2017 as outlined in the 2017 Annual Report.
- In order to simplify the structure and reflect the increasing time demands of the Board from the 1 March 2018 the Board modified its fee structure as outlined in section 5.7.
- The Short-Term Incentive (STI) outcome for Senior Executives was considerably higher than FY17 as the business performed significantly better than last year with revenue growth exceeding expectations and adjusted NPAT on expectations. The Board was also pleased with the execution of specific projects that were given to executives to complete and our staff engagement is at record levels.
- The Long-Term Incentive (LTI) achieved the minimum required growth rate of 7.4% CAGR in adjusted Earnings per share over the 3-year vesting period.

As in previous years, in this report the Company is voluntarily disclosing the actual cash remuneration received by Senior Executives, in addition to the statutory reporting obligations. The Remuneration and Nomination Committee believes that carsales' remuneration framework is fully aligned with and supports the Group's financial and strategic goals.

As always, we welcome your feedback on our Remuneration Report and look forward to discussions with many of you over the coming year.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Kim Anderson', written in a cursive style.

Kim Anderson  
Chair of the Remuneration and Nomination Committee

# Remuneration Report

## 1. Introduction

The Board has established a Remuneration and Nomination Committee which provides guidance on remuneration, incentive policies and practices, and undertakes regular remuneration benchmarking in order to make specific recommendations on remuneration packages and other terms of employment for the CEO, Senior Executives and Non-Executive Directors (together Key Management Personnel).

Further information on the purpose and duties of the Remuneration and Nomination Committee is contained in its Charter, which is available from the Company's investor website at [shareholder.carsales.com.au](http://shareholder.carsales.com.au).

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

Cameron McIntyre	Managing Director and Chief Executive Officer
Ajay Bhatia	Managing Director – Consumer
Anthony Saines	Managing Director – Commercial
Paul Barlow	Managing Director – International
Andrew Demery	Chief Financial Officer

Reflecting the seniority of the role of Chief Financial Officer of the Company, Mr Andrew Demery became a Senior Executive effective 1 July 2017.

Mr Kee Wong was appointed as a director of the Company effective 9 July 2018 which is the only change in Key Management Personnel (KMPs) between 30 June 2018 and the date of publication. As Mr Wong was appointed after the end of the 2018 financial year he is not included in any of the tables setting out the remuneration for FY18.

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

## 2. Remuneration principles

### 2.1 Principles used to determine the nature and amount of remuneration for FY18

The governance of Senior Executive remuneration is a core focus of the Remuneration and Nomination Committee.

The objective of the Company's executive remuneration framework is to ensure that reward for performance is competitive and appropriate for the Company results delivered, and to attract and retain top talent. The framework aligns Senior Executive remuneration with the achievement of strategic objectives and creation of long-term value for shareholders. The framework is informed by market practice and adapted to the Company's current position in relation to its strategic plan.

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

Alignment to shareholders' long-term 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, experience and performance.
- 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.

To ensure the remuneration framework is market competitive and therefore meets the objective to retain talent, the Company will from time to time benchmark remuneration structures against relevant peers.

# Remuneration Report continued

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. Increasingly the Company also considers global competitors for talent to be relevant, but has focused on companies with an Australian presence for the purposes of this remuneration framework in the current year.

The Company notes that no remuneration recommendations were received from external parties in 2018.

## 2.2 FY18 Remuneration structure

Senior Executive remuneration for FY18 is comprised of following components as detailed below.

Component	Description	Purpose
<b>Fixed cash salary and superannuation</b>	<p>Senior Executives are offered a competitive fixed cash salary including superannuation. These are 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. Each Senior Executive's package is reviewed annually, or subsequent to promotion, by the Remuneration and Nomination Committee. There is no guaranteed cash salary and superannuation increase included in any Senior Executive's contract.</p> <p>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.</p>	<p>Competitive fixed cash salary including superannuation provides compensation and recognition for the Senior Executive's day to day work and responsibilities.</p> <p>The Company seeks to ensure its fixed salary component is competitive with industry peers to attract and retain key talent, taking into account each individual Senior Executive's experience, capabilities and performance.</p>
<b>Short-term incentive (STI)</b>	<p>The STI plan is an annual incentive based award paid to Senior Executives on the achievement of certain financial and strategic objectives. The performance conditions attached to the FY18 STI award are 70% financial and 30% company-wide strategic, personal, and cultural objectives.</p> <p>Of the award achieved, 75% is paid as a cash payment and the remaining 25% is awarded in equity (performance rights), the vesting of which is deferred for an additional 12 months subject to a continued service condition.</p> <p>The size of the STI opportunity available to each Senior Executive is based on their accountabilities and impact of their role on the organisation or business unit(s) which they lead.</p> <p>The maximum STI payable for Senior Executives is capped at 60% of base salary (including superannuation), except for the CEO, who has a cap of 87% of base salary (including superannuation).</p>	<p>The STI aligns remuneration with short-term goals of the Company which support shareholder value, taking into account the Company's immediate priorities.</p> <p>The STI plan provides Senior Executives with specific incentive to drive overachievement of key financial and strategic, personal and cultural targets, as determined by the Board.</p> <p>By deferring payment of 25% of the award in equity for 12 months subject to a continuing service condition, the STI encourages talent retention as well as aligns the Senior Executive's interests with those of shareholders.</p> <p>The plan is able to distinguish between Senior Executives to reward the individual's performance.</p>

<b>Component</b>	<b>Description</b>	<b>Purpose</b>
<b>Long-term incentive (LTI)</b>	<p>LTIs are an equity based award paid to Senior Executives on the achievement of long-term performance conditions, measured over a three year period.</p> <p>70% of the LTI award is linked to financial measures and is satisfied through the issuance of performance rights. The remaining 30% of the LTI award is linked to strategic milestones and is satisfied through the issuance of options.</p> <p>The options and performance rights under this plan are issued for no cash consideration, but are subject to vesting rules and expiry periods. Options and performance rights vest on fixed dates, provided that employment has not been terminated, and relevant targets have been achieved.</p> <p>LTIs are awarded 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.</p>	<p>The LTI incentivises management to deliver high performance outcomes over the long term in a structure that aligns remuneration with the interests of shareholders.</p> <p>The Company includes strategic milestones in its LTI plan to recognise that there are important projects the Company is undertaking to promote future sustainability and growth, which should not be sacrificed for short-term financial return.</p> <p>The 3 year vesting period is designed to both encourage the Senior Executives to always consider the long-term future of the Company in their decisions and also to operate as a retention tool to incentivise high performing executives to remain with the Company. In light of the various objectives of the plan, it is important that the targets set are both challenging and achievable.</p> <p>By having a significant portion of Senior Executives' potential remuneration tied to the Company's equity, the Board ensures alignment between the interests of Senior Executives and shareholders.</p>
<b>Deferred incentives</b>	<p>From FY18, the Company retired the separate deferred short-term incentive (DSTI) plan, instead opting to defer 25% of the STI award for a given year for a period of 12 months. However, the FY17 DSTI award was performance tested at 30 June 2017 and met the minimum EPS target as set out in the 2017 Annual Report with 78% of the award vesting, subject to the continued service condition.</p> <p>This award vests immediately after the Board releases the 2018 Annual Report to the ASX.</p>	<p>As part of its drive to simplify the Company's remuneration framework, the Board removed this component and incorporated a deferred aspect to the STI plan as detailed above.</p>
<b>Other benefits</b>	<p>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.</p>	<p>This insurance cover is part of the carsales 'People Promise' provided to all employees of the Group.</p>

# Remuneration Report continued

## 2.3 Engagement with shareholders and proxy advisors

Each year, the Company proactively engages with proxy advisors on a regular basis to ensure that they have a good understanding of the Company's remuneration structure and decisions and are in a position to provide insightful advice to their clients. The Company views these meetings as an opportunity to receive valuable feedback on issues of importance to our shareholders and to ensure it is across the trends being seen in the market.

Over the course of FY18, the representatives of the Company have met with the following proxy advisors:

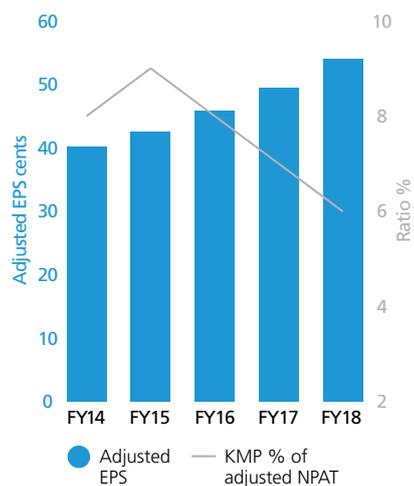
- Ownership Matters;
- ACSI;
- CGI Glass Lewis;
- ISS; and
- the Australian Shareholders' Association.

## 3. Company five year financial performance

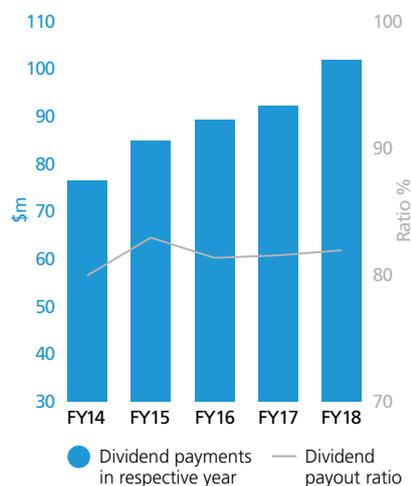
One of the key tenets of the Company's remuneration framework is to closely align Senior Executive pay and Company performance. The Company provides shareholders with an overview of the Company's performance for the five-year period ending 30 June 2018 within the Remuneration Report to enable an assessment of whether the Company has been successful in aligning Senior Executive and shareholder interest.

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 KMP total remuneration shown as a percentage of adjusted profit for the year.

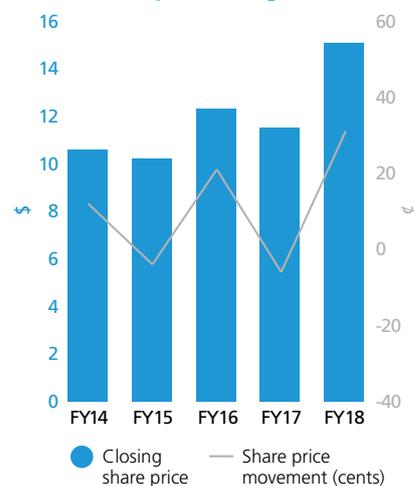
**Adjusted EPS and KMP remuneration**



**Dividend payment and ratio**



**Share price and movement percentage**



## 4. Remuneration snapshot

### 4.1 Cash based benefits that were realised in FY18

To make it easier for our shareholders to understand the actual amounts KMPs received in the current financial year, the Company has opted to include additional disclosures to those required under the Australian Accounting Standards and the *Corporations Act 2001*.

The figures in the tables below are in addition to the disclosures made in section 4.2 (which provides a breakdown of Senior Executive remuneration in accordance with statutory requirements and Australian Accounting Standards). The tables below are designed to reflect value of benefits that have actually been received by the Non-Executive Directors and Senior Executives in FY17 and FY18 rather than the value received on an accounting treatment basis and have not been prepared in accordance with the Australian Accounting Standards.

- 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 tables show the value of DSTI and LTI awards that have 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 2018 (June or August 2017 for the FY17 financial year).
- The DSTI value in the table 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 2018 closing share price (30 June 2017 closing share price for the FY17 financial year).
- The LTI values in the table 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 2018 share price (30 June 2017 closing share price for the FY17 financial year), less the exercise cost of converting options to shares.

#### 2018

Name	Cash salary (includes super- annuation) \$	Non- Monetary benefits \$	Other \$	STI payable as cash \$	Value of DSTI performance rights that became unrestricted \$	Value of LTI that became unrestricted \$	FY18 total \$
Jeffrey Browne	211,144	-	-	-	-	-	211,144
Richard Collins	250,606	-	-	-	-	-	250,606
Wal Pisciotta	126,667	-	-	-	-	-	126,667
Pat O'Sullivan	180,000	-	-	-	-	-	180,000
Kim Anderson	180,000	-	-	-	-	-	180,000
Edwina Gilbert	152,424	-	-	-	-	-	152,424
Steve Kloss (Alternate)	45,833	-	-	-	-	-	45,833
<b>Sub-total Non-Executive Directors</b>	<b>1,146,674</b>						<b>- 1,146,674</b>

#### Executive Directors

Cameron McIntyre	1,269,615	-	-	622,875	119,611	566,898	2,578,999
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#### Other Senior Executives

Ajay Bhatia	785,000	-	-	297,795	65,785	245,925	1,394,505
Anthony Saines	710,000	-	-	309,323	66,021	323,453	1,408,797
Paul Barlow	590,000	-	-	234,210	47,847	164,767	1,036,824
Andrew Demery	440,000	-	-	161,100	23,917	93,775	718,792
<b>Total Key Management Personnel compensation (Group)</b>	<b>4,941,289</b>			<b>1,625,303</b>	<b>323,181</b>	<b>1,394,818</b>	<b>8,284,591</b>

# Remuneration Report continued

2017

Name	Cash salary (includes super- annuation) \$	Non- Monetary benefits \$	Other \$	STI payable as cash \$	Value of DSTI performance rights that became unrestricted \$	Value of LTI that became unrestricted \$	FY17 total \$
Jeffrey Browne	290,909	-	-	-	-	-	290,909
Richard Collins	216,250	-	-	-	-	-	216,250
Wal Pisciotta	120,000	-	-	-	-	-	120,000
Pat O'Sullivan	175,000	-	-	-	-	-	175,000
Kim Anderson	171,023	-	-	-	-	-	171,023
Edwina Gilbert	140,833	-	-	-	-	-	140,833
Steve Kloss (Alternate)	110,000	-	-	-	-	-	110,000
<b>Sub-total Non-Executive Directors</b>	<b>1,224,015</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,224,015</b>
<b>Executive Directors</b>							
Greg Roebuck (Retired 17/03/2017)	1,400,461	61,387	2,245,215	257,250	-	-	3,964,313
Cameron McIntyre(i) (Appointed 17/03/2017)	1,189,196	-	-	322,500	105,403	-	1,617,099
<b>Other Senior Executives</b>							
Ajay Bhatia	743,751	-	-	155,575	57,969	-	957,295
Anthony Saines	669,876	-	-	208,250	58,181	-	936,307
Paul Barlow	561,126	-	-	161,700	42,163	-	764,989
Chris Polites(ii)	309,959	-	-	102,900	28,984	-	441,843
<b>Total Key Management Personnel compensation (Group)</b>	<b>6,098,384</b>	<b>61,387</b>	<b>2,245,215</b>	<b>1,208,175</b>	<b>292,700</b>	<b>-</b>	<b>9,905,861</b>

(i) Cameron McIntyre was a Senior Executive for the entire year, as Chief Operating Officer up until his appointment as Managing Director and CEO on 17 March 2017.

(ii) Chris Polites resigned on 22 March 2017 and ceased being a Senior Executive from that date.

## 4.2 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 FY18.

2018	Short-term employee benefits		Deferred Short-Term Incentive		Super-annuation	Long-term benefits	Share-based payments			Total \$
	Cash salary and fees \$	Cash Bonus \$	Non-monetary benefits \$	Performance rights \$	Super-annuation \$	Long service leave \$	Options \$	Performance rights \$	Other \$	
<b>Non-Executive Directors</b>										
Jeffrey Browne	211,144	-	-	-	-	-	-	-	-	211,144
Richard Collins	231,441	-	-	-	19,165	-	-	-	-	250,606
Wal Pisciotta	103,667	-	-	-	23,000	-	-	-	-	126,667
Pat O'Sullivan	164,384	-	-	-	15,616	-	-	-	-	180,000
Kim Anderson	164,384	-	-	-	15,616	-	-	-	-	180,000
Edwina Gilbert	139,200	-	-	-	13,224	-	-	-	-	152,424
Steve Kloss (Alternate)	45,833	-	-	-	-	-	-	-	-	45,833
<b>Sub-total Non-Executive Directors</b>	<b>1,060,053</b>	-	-	-	<b>86,621</b>	-	-	-	-	<b>1,146,674</b>
<b>Executive Directors</b>										
Cameron McIntyre	1,249,566	622,875	-	132,804	20,049	21,831	164,036	309,794	-	2,520,955
<b>Other Senior Executives</b>										
Ajay Bhatia	764,951	297,795	-	66,618	20,049	13,349	61,823	107,939	-	1,332,524
Anthony Saines	685,000	309,323	-	68,357	25,000	12,034	71,061	121,777	-	1,292,552
Paul Barlow	565,000	234,210	-	50,980	25,000	9,936	39,963	67,796	-	992,885
Andrew Demery	419,951	161,100	-	30,344	20,049	5,708	23,533	42,953	-	703,638
<b>Total Key Management Personnel compensation (Group)</b>	<b>4,744,521</b>	<b>1,625,303</b>	-	<b>349,103</b>	<b>196,768</b>	<b>62,858</b>	<b>360,416</b>	<b>650,259</b>	-	<b>7,989,228</b>

# Remuneration Report continued

2017	Short-term employee benefits		Deferred Short-Term Incentive	Superannuation	Long-term benefits	Share based payments		Other	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	290,909	-	-	-	-	-	-	-	-	290,909
Richard Collins	197,489	-	-	-	18,761	-	-	-	-	216,250
Wal Pisciotta	120,000	-	-	-	-	-	-	-	-	120,000
Pat O'Sullivan	159,817	-	-	-	15,183	-	-	-	-	175,000
Kim Anderson	159,636	-	-	-	11,387	-	-	-	-	171,023
Edwina Gilbert	128,615	-	-	-	12,218	-	-	-	-	140,833
Steve Kloss (Alternate)	110,000	-	-	-	-	-	-	-	-	110,000
<b>Sub-total</b>	<b>1,166,466</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>57,549</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,224,015</b>
<b>Non-Executive Directors</b>										
<b>Executive Directors</b>										
Greg Roebuck (Retired 17/03/2017)	1,375,942	257,250	61,387	(19,637)	24,519	141,160	(382,245)	(446,583)	986,107	1,997,900
Cameron McIntyre (ii) (Appointed 17/03/2017)	1,169,580	322,500	-	92,643	19,616	80,037	(5,880)	15,241	-	1,693,737
<b>Other Senior Executives</b>										
Ajay Bhatia	724,135	155,575	-	50,951	19,616	14,669	1,963	8,975	-	975,884
Anthony Saines	650,260	208,250	-	51,136	19,616	12,946	(1,555)	12,100	-	952,753
Paul Barlow	541,510	161,700	-	37,059	19,616	10,198	2,427	6,486	-	778,996
Chris Polites (iii)	295,901	102,900	-	15,000	14,058	3,593	(35,857)	(33,322)	-	362,273
<b>Total Key Management Personnel compensation (Group)</b>	<b>5,923,794</b>	<b>1,208,175</b>	<b>61,387</b>	<b>227,152</b>	<b>174,590</b>	<b>262,603</b>	<b>(421,147)</b>	<b>(437,103)</b>	<b>986,107</b>	<b>7,985,558</b>

- (i) The negative share based payments reflect the reversal of the accounting provision for the FY17 Long-Term Incentive award which did not meet the minimum threshold required for performance rights to vest, and for Mr Roebuck the lapsing of the FY18 LTI award on his retirement.
- (ii) Cameron McIntyre was a Senior Executive for the entire year, as Chief Operating Officer up until his appointment as Managing Director and CEO on 17 March 2017.
- (iii) Chris Polites resigned on 22 March 2017 and ceased being a Senior Executive from that date.

### 4.3 Remuneration Mix (percentage of total remuneration)

For the Senior Executives and Managing Director, the relative proportions of target remuneration which are variable and those that are fixed based on amounts earned (or granted in the case of the LTI) in the financial year are as follows:

<b>Executive KMP</b>	<b>Total fixed remuneration %</b>	<b>STI (at Cap) %</b>	<b>LTI grant %</b>	<b>Total variable remuneration %</b>
Cameron McIntyre	35%	30%	35%	65%
Ajay Bhatia	49%	29%	22%	51%
Anthony Saines	48%	29%	23%	52%
Paul Barlow	52%	31%	17%	48%
Andrew Demery	52%	31%	17%	48%

Non-executive Directors all have 100% fixed remuneration.

## 5. Remuneration outcomes

### 5.1 Service conditions

All Senior Executives have service agreements determining cash salary, superannuation, performance based cash bonus opportunity 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 6 months by either party and there is a 6 month non-compete period.

All Senior Executives are entitled to participate in the STI and LTI plans. The separate DSTI plan has been discontinued. From FY18 a portion of the STI achievement will be deferred for 12 months.

### 5.2 Cash salary and superannuation

Annual cash salary and superannuation entitlements of Senior Executives for FY18 is set out below:

<b>Name</b>	<b>Annual cash salary and superannuation from 1 July 2017 to 30 June 2018</b>
C McIntyre	\$1,269,615
A Bhatia	\$785,000
A Saines	\$710,000
P Barlow	\$590,000
A Demery	\$440,000

Actual cash paid to each Senior Executive is shown in the cash remuneration tables in section 4.1. No Senior Executives received a salary increase during the year. No Senior Executive elected to receive a proportion of their salary package in the form of non-financial benefits.

### 5.3 FY18 STI plan (cash bonus and deferred equity grant) and outcomes

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 recommending to the Board the 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 and making a recommendation to the Board. The Board maintains discretion to review the performance against individual targets and the overall outcome of the STI award and ensure it is congruent with the overall performance of the Company and of the individual Senior Executive, within the participant's maximum STI opportunity.

# Remuneration Report continued

## 5.3.1 FY18 Short-Term Incentive Plan Structure

### FY18 Short-Term Incentive Plan Summary

<b>Participants</b>	Senior Executives													
<b>Award vehicle</b>	<p>Subject to the achievement of the relevant financial and strategic targets:</p> <ul style="list-style-type: none"> <li>• 75% of the award is made as a cash payment; and</li> <li>• 25% is awarded in equity (performance rights), vesting of which is deferred for an additional 12 months subject to a continued service condition. Performance rights are issued for no cash consideration. No dividends are payable until the performance rights vest into ordinary shares at the conclusion of the 12 month period.</li> </ul>													
<b>Performance period</b>	<p>12 months, commencing 1 July 2017 and ending on 30 June 2018.</p> <p>For the deferred equity portion the award vests after the publication of the 2019 Annual Report, subject to the continued service condition being achieved.</p>													
<b>Performance measures</b>	<p>The STI plan incorporates both financial and non-financial performance measures. The performance measures and their relative weightings are:</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Measures</th> <th>Weighting</th> </tr> </thead> <tbody> <tr> <td rowspan="2"><b>Financial</b></td> <td>Look through revenue</td> <td>35%</td> </tr> <tr> <td>Adjusted NPAT</td> <td>35%</td> </tr> <tr> <td rowspan="2"><b>Non-financial</b></td> <td>Strategic and personal objectives</td> <td>20%</td> </tr> <tr> <td>People and culture metrics</td> <td>10%</td> </tr> </tbody> </table>	Category	Measures	Weighting	<b>Financial</b>	Look through revenue	35%	Adjusted NPAT	35%	<b>Non-financial</b>	Strategic and personal objectives	20%	People and culture metrics	10%
Category	Measures	Weighting												
<b>Financial</b>	Look through revenue	35%												
	Adjusted NPAT	35%												
<b>Non-financial</b>	Strategic and personal objectives	20%												
	People and culture metrics	10%												
<b>Selection of Performance Measures</b>	<p>In setting the performance measures for the FY18 STI plan, the Board considered the early stage of many of the Company's international investments. To account for the stage of these investments, the Board considered it appropriate to include a look through revenue measure to ensure focus is placed on growing these businesses by all Senior Executives.</p> <p>Adjusted NPAT was selected by the Board to ensure that Senior Executives are focused on both top and bottom line growth so profits are being generated for shareholders.</p> <p>The adoption of non-financial measures recognises the importance of strategic initiatives which correlate to the Company's business strategy and the critical role culture and employee satisfaction play in the Company's success.</p>													
<b>Determination of payout linked to performance</b>	<p>For each measure, there is a minimum threshold. If this is not achieved, no award will be made for that portion of the STI.</p> <p>A sliding scale for each measure applies to the achievement of financial and non-financial measures from the minimum performance threshold, through to 100% for 'on target' performance and up to an individual's STI cap for exceeding target.</p> <p>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:</p> <ul style="list-style-type: none"> <li>• Exceeded – The actual objective outcome exceeded the target objective outcome.</li> <li>• On target – The actual objective outcome was equal to the target objective outcome.</li> <li>• Partial achievement – The actual objective outcome while below the target objective outcome was still high enough that some achievement was reported.</li> <li>• Missed – The actual objective outcome was materially below the target objective outcome, or below the minimum threshold set for achievement.</li> </ul>													
<b>Ceasing to be an employee</b>	<p>Senior Executives that leave during the relevant period 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 STI entitlements. Where a Senior Executive is considered a bad leaver no pro-rata share is granted.</p>													

### 5.3.2 FY18 Short-Term Incentive Plan Award and Objective 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.

#### 5.3.2.1 70% Financial Measures

The financial objectives relate to performance against Board approved annual key financial targets of the Company, ensuring that the Company is mindful of expected consensus earnings expectations.

The achievement of the financial measures were:

<b>Metric</b>	<b>Achievement</b>
Look through revenue	Exceeded
Adjusted NPAT	Met

Look through revenue is defined as ordinary revenue reported for the consolidated Group adjusted for the ownership percentage held for the group of consolidated subsidiaries, and adding in the Group's ownership share of the underlying revenue for equity accounted associates.

Adjusted NPAT is defined as the Group net profit after tax and non-controlling interests and excludes acquired intangible asset amortisation and any material one-off transactions of a corporate nature, such as gains/losses on business disposals, non-cash associate revaluations, impact of capital reorganisations, or other significant non-recurring corporate transaction costs as determined by the Board, consistent with the adjusted NPAT that is disclosed when reporting the Company's annual results. The Board also retains discretion to alter the adjusted NPAT hurdle in exceptional circumstances to ensure there is no material advantage or disadvantage due to matters outside management's control that would materially affect adjusted NPAT. The Board believes this metric gives the best reflection of the underlying trading performance of the Group and is an appropriate earnings metric to align to Shareholder value.

Both the look through revenue and adjusted NPAT metrics exclude any corporate activity (such as acquisitions) made after the date of the AGM notice. Specifically, the look-through revenue and adjusted NPAT measured achievement was adjusted to exclude the impact of the acquisition of the remaining 50.1% of SK Encar and 35% of soloautos the Company did not own, which occurred in January 2018 and December 2017 respectively.

This section of the plan enables the Senior Executive to earn up to 105% of 175% on-target earnings for over achievement against each of the above mentioned objectives (subject to the application of each individuals STI cap).

This translated to an overall payout of between 77%-123% of on-target earnings for the Senior Executives.

#### 5.3.2.2 30% Strategic Objectives

The 30% Strategic Objectives portion of the STI is measured against:

- successful project delivery recognising the importance of strategic projects which may not have an immediate financial impact on the Company;
- achievement of people and culture targets recognising the vital role the Company's culture plays in its success; and
- individual goals of the executive recognising the unique role each of our executives play in the Company's operations.

#### *Project and Individual delivery (20% of On-target Earnings Value)*

The project objectives involve the execution of pre-determined project targets for which the Senior Executive team 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 enables the Senior Executive to earn up to an 10% of 30% on-target earnings for over achievement against each of the above mentioned objectives (subject to the application of each individuals STI cap).

## Remuneration Report continued

There were 5 projects in FY18, four of which are common to all Senior Executives and one specific to the Senior Executive's responsibilities. Common objectives relate to customer satisfaction, technology development, new revenue streams and new commercial products. Due to commercial sensitivity, each specific project objective is not outlined below. Achievement was as follows.

- Two project objective – Exceeded
- Two project objectives – On Target
- No project objectives – Partial achievement or Missed

This translated to an overall payout of between 22%-24% of on-target earnings for the Senior Executives.

### *People and culture (10% of On-target Earnings Value)*

carsales prides itself on having a highly engaged and motivated workforce with a strong sense of values, culture and passion. The people and culture section of the plan is designed to ensure that Senior Executives are incentivised 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 enables the Senior Executive to earn up to 15% of on-target earnings for over achievement against the above mentioned objective (subject to the application of each individuals STI cap).

Overall the Employee Engagement metric was exceeded. This translated to an overall payout of 15% of on-target earnings for each Senior Executive.

### 5.3.3 Overall STI financial outcomes

2018	Actual STI awarded \$	% of target awarded	% of target forfeited	STI cap \$	% of STI cap awarded
C McIntyre	830,500	161%	-	1,100,000	76%
A Bhatia	397,060	143%	-	471,000	84%
A Saines	412,430	114%	-	425,000	97%
P Barlow	312,280	137%	-	354,000	88%
A Demery	214,800	134%	-	264,000	81%

Under the FY18 STI plan 25% of the awarded STI is awarded in equity, vesting of which is deferred for an additional 12 months subject to a continued service condition.

2018	Actual STI awarded \$	Paid in cash \$	Amount deferred in equity \$	Number of performance rights awarded
C McIntyre	830,500	622,875	207,625	13,956
A Bhatia	397,060	297,795	99,265	6,672
A Saines	412,430	309,323	103,108	6,931
P Barlow	312,280	234,210	78,070	5,248
A Demery	214,800	161,100	53,700	3,610

13,956 performance rights will be issued to Mr McIntyre as the CEO after the release of this report to the ASX in August 2018, with an exercise price of \$0.00. These performance rights were approved by shareholders at the AGM held on 27 October 2017.

22,461 performance rights will be issued to Senior Executives after the release of this report to the ASX in August 2018, with an exercise price of \$0.00.

The number of performance rights awarded was determined by multiplying the actual STI awarded for the FY18 year by 25% and then divided by the volume weighted average price of the Company's Shares for the 20 trading days prior to 1 July 2018, which was \$14.87.

Subject to the continued service condition being satisfied, unless otherwise waived by the Board, Performance Rights will vest after the Board releases the 2019 Annual Report to the ASX.

## 5.4 2017 DSTI plan outcome

The amounts payable under this award based on the accounting Black Scholes valuations are as follows:

2018	Actual DSTI award vesting			
	Vested \$	Vested %	Forfeited %	Forfeited \$
C McIntyre	78,000	78%	22%	22,000
A Bhatia	42,899	78%	22%	12,100
A Saines	43,053	78%	22%	12,143
P Barlow	31,202	78%	22%	8,800
A Demery	15,597	78%	22%	4,399

The cash value to each Senior Executive of the 2017 DSTI vesting based on the 30 June 2018 share price is as follows:

2018	Actual DSTI cash value at 30 June 2018			
	Vested \$	Vested %	Forfeited %	Forfeited \$
C McIntyre	119,611	78%	22%	33,736
A Bhatia	65,785	78%	22%	18,555
A Saines	66,021	78%	22%	18,621
P Barlow	47,847	78%	22%	13,495
A Demery	23,917	78%	22%	6,746

## 5.5 LTI plans

There are three years of unvested LTI awards which have performance periods that include the FY18 financial year as follows:

Financial year of grant	Performance period	Relevant performance year to determine vesting	Vesting date
FY16	1 July 2015 – 30 June 2018	FY18	August 2018
FY17	1 July 2016 – 30 June 2019	FY19	August 2019
FY18	1 July 2017 – 30 June 2020	FY20	August 2020

The terms of each financial year award are set out below and vary for each year.

### Ceasing employment

Senior Executives who leave the Company have 30 days from their date of departure to exercise any vested options 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.

### Clawback

If the Board in its reasonable opinion determines that a plan participant has engaged in any of the following conduct, the Board may declare that all, or some, of the Participant's Options, Performance Rights or ordinary shares held under the plan are forfeited:

- cessation of employment, other than for special circumstances, redundancy or by mutual agreement between the Board and the Participant;
- material breach of the Participant's obligations to the Company or a Subsidiary;
- behaviour that brings the Company or Group into disrepute.

### Hedging Policy

The Company's Option Plan specifically prohibits a plan participant from entering into any scheme, arrangement, agreement (including options and derivative products) or other hedging transaction under which the participant may alter or limit the economic benefit or risk to be derived from options, irrespective of future changes in the market price of any Company shares. Where a plan participant enters, or purports to enter, into any such scheme, arrangement or agreement, all options will immediately lapse.

# Remuneration Report continued

## 5.5.1 Unvested Long-Term Incentive Plan Structure – FY18 Grant Vesting FY20

### Long-Term Incentive Plan Summary – FY18 Grant

**Participants** Eligible employees under the carsales.com Ltd Employee Option Plan, established via a prospectus lodged with ASIC in 2000. Upon recommendation by the Remuneration and Nomination Committee, the Board determines who is eligible to participate in the plan.

**Award vehicle** The LTI awards are a combination of options and performance rights and are issued for no cash consideration.

The 70% of the LTI award that is subject to financial performance measures are paid in performance rights. The 30% of the LTI award that is subject to strategic objectives are paid in options.

Options and performance rights are issued subject to vesting rules and expiry periods and vest on fixed dates provided employment has not been terminated, and targets have been achieved.

No dividends are paid during the performance period and until the rights or options vest/are exercised by the Senior Executive.

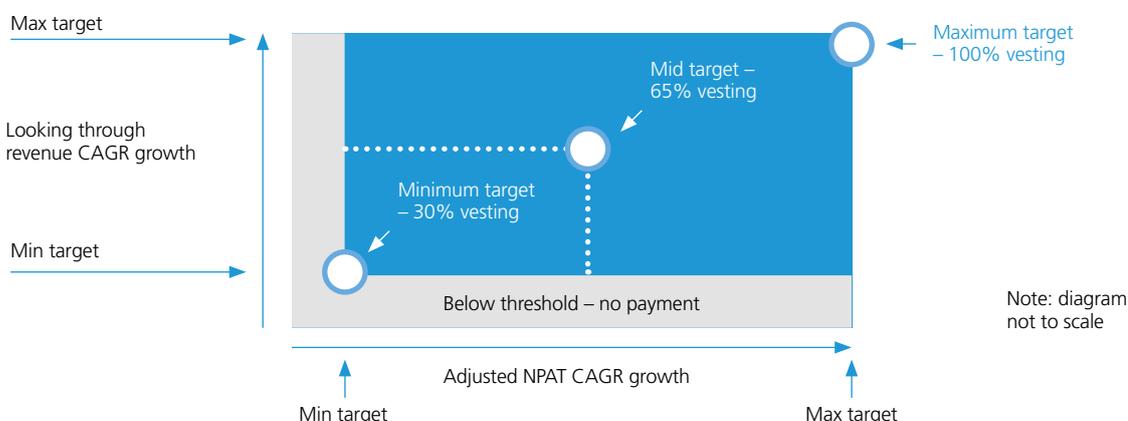
Options and performance rights issued to the CEO contain the same terms, conditions and performance targets as those issued to Senior Executives.

**Performance period** Performance is measured over a three year period to 30 June 2020.

The expiry date of the FY18 award is fifteen years from the grant date.

**Performance measures** **Financial measures**

70% of the award is tested pursuant to a financial matrix with measures of look through revenue Cumulative Annual Growth Rate (CAGR) growth and adjusted NPAT CAGR growth. A minimum 'gate' threshold for both these metrics must be achieved in the performance period prior to any award vesting. If the minimum target for either measure is not achieved, then no award will vest.



The targets have been set as follows:

	Minimum CAGR	Maximum CAGR
Look through revenue	5.5%	11.3%
Adjusted NPAT	5.3%	10.1%

Look through revenue is defined as ordinary revenue reported for the consolidated Group adjusted for the ownership percentage held for the group of consolidated subsidiaries, and adding in the Group's ownership share of the underlying revenue for equity accounted associates.

Adjusted NPAT is defined as the Group net profit after tax and non-controlling interests and excludes acquired intangible asset amortisation and any material one-off transactions of a corporate nature, such as gains/losses on business disposals, non-cash associate revaluations, impact of capital reorganisations, or other significant non-recurring corporate transaction costs as determined by the Board, consistent with the adjusted NPAT that is disclosed when reporting the Company's annual results. The Board also retains discretion to alter the adjusted NPAT hurdle in exceptional circumstances to ensure there is no material advantage or disadvantage due to matters outside management's control that would materially affect adjusted NPAT. The Board believes this metric gives the best reflection of the underlying trading performance of the Group and is an appropriate earnings metric to align to Shareholder value.

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### Long-Term Incentive Plan Summary – FY18 Grant

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Both the look through revenue and adjusted NPAT metrics exclude any corporate activity (such as acquisitions) made after the date of the AGM notice (26 September 2017) with the exception that should the Group dispose of any group businesses or acquire additional equity stakes in any existing group businesses the CAGR targets for both look through revenue and adjusted NPAT will be altered to maintain the underlying CAGR growth rates targeted for the 2020 financial year. The Board also retains discretion to adjust the CAGR growth rates to include the impact of any strategically important acquisitions made during the performance period such that management is not materially advantaged or disadvantaged from entering into further acquisitions where it is in Shareholders' interests to do so.

The look through revenue CAGR and adjusted NPAT CAGR each make up 50% of the targets for the award to vest. The award will be capable of vesting and exercise if at the testing date the look through revenue and adjusted NPAT CAGR targets have been achieved or exceeded as follows:

- If either the look through revenue or adjusted NPAT CAGR minimum targets are not achieved, then no Performance Rights will be capable of exercise.
- If the minimum target is achieved for both measures, 30% of the Performance Rights will vest.
- If the maximum target is achieved or exceeded for both measures, 100% of the Performance Rights will vest.
- Provided the minimum of both targets are met, then there will be a pro-rata allocation of Performance Rights between the minimum of 30% and the maximum of 100% according to the results achieved for each target.

#### Strategic Measures

30% of the award is tested against strategic objectives.

Objectives are as follows:

- International revenue growth, reflecting the strategic importance of this to the long-term success of the Group;
- Growth in Australian non-classified automotive products and services revenues, reflecting the importance of the diversification of the revenue base from the Group's traditional product set; and
- Successful development and deployment of the Group's technology into the core business and leveraging this into adjacent market and international businesses.

Each strategic objective above will make up 10% of the overall value of the LTI (30% in total). The options for each objective will be capable of vesting and exercise if at the testing date the objectives have been achieved or exceeded as follows (the achievement of the objectives is determined by the Board):

- If the objective is not achieved, then no options will be capable of exercise.
  - If the objective is partly achieved, then 50% of the options for that objective will be capable of exercise (5% of the total LTI value); and
  - If the objective is fully achieved, then 100% of the options for that objective will be capable of exercise (10% of the total LTI value).
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## Long-Term Incentive Plan Summary – FY18 Grant

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### **Selection of Financial**

**Performance measures** For FY18 the Board took the unique approach of adopting the same financial measures for the STI and LTI. It made this decision on the basis of the Company's priorities and position at that time to ensure the focus on key financial metrics remain sharp for the long-term.

The look through revenue measure was adopted to ensure that the Company's international investments, which represent a strong contributor to the Company's medium to long-term growth, are provided with sufficient support and attention to grow in this phase of their lifecycle. It was important not to limit this to just the current year under the STI plan, but to position these businesses for sustained growth in the longer term.

The Board adopted the adjusted NPAT measure to ensure that Senior Executives to ensure revenue translates to profits, increasing shareholder value.

The Board adopted a matrix to determine outcomes, which has a minimum 'gate' threshold be achieved in the performance period for both financial metrics prior to any performance rights vesting. This ensures that Senior Executives are incentivised to grow both earnings and revenue, and not sacrifice one over the other. Similarly, it aligns the objectives of the Senior Executives with those of the Company's shareholders over the three year period.

### **Strategic**

Strategic milestones recognise that there are important projects the Company is undertaking to promote future sustainability and growth, and these should not be sacrificed for short-term return. The successful completion of the strategic milestones will be paid in Options to align the expected long-term benefit of these projects.

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The following unvested awards are outstanding for the FY18 award:

	<b>Award Date</b>	<b>Number of options</b>	<b>Number of performance rights</b>	<b>Options exercise price \$</b>	<b>Performance rights exercise price \$</b>	<b>Vesting Date</b>
Managing Director	27/10/2017	115,243	72,530	11.41	0	August 2020
Other Senior Executives	27/10/2017	96,804	60,925	11.41	0	August 2020

#### 5.5.2 Unvested Plan Structure for FY17 award vesting in FY19

##### Long-Term Incentive Plan Summary – FY17 Grant

**Participants** Eligible employees under the carsales.com Ltd Employee Option Plan, established via a prospectus lodged with ASIC in 2000. Upon recommendation by the Remuneration and Nomination Committee, the Board determines who is eligible to participate in the plan.

**Award vehicle** The LTI awards are a combination of options and performance rights and are issued for no cash consideration.

40% of the total value of the award is awarded in options with an exercise price of \$12.23, being the volume weighted average price of the Company's Shares for the 21 days prior to 1 July 2016.

60% of the total value of the award is awarded in performance rights with a \$0 exercise price.

Options and performance rights are issued subject to vesting rules and expiry periods and vest on fixed dates provided employment has not been terminated, and RTSR and/or EPS targets have been achieved.

No dividends are paid during the performance period and until the rights or options vest / are exercised by the Senior Executive. Amounts received on the exercise of options are recognised as share capital.

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

**Performance period** Performance is measured over a three-year period to 30 June 2019. The expiry date of the FY17 award is fifteen years from the grant date.

## Long-Term Incentive Plan Summary – FY17 Grant

**Performance measures** The FY17 award is subject to both EPS (70% of total award) and Relative Total Shareholder Return (RTSR) (30% of total award) targets.

### EPS Measure

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 a significant compound annual growth rate (CAGR) in EPS between the baseline year and the testing year.

The Company will publish in its FY19 Annual Report the minimum and maximum EPS target that was applicable to the grant, along with the actual EPS achieved by the Company in the relevant year.

Options and performance rights subject to the EPS target 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, 70% of the vested options and performance rights will be capable of exercise;
- 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 70% and 100%.

In considering the appropriate EPS target, the Board uses 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.

Minimum and maximum EPS targets for the options and performance rights were set for the period ending 30 June 2019 and the award of options and performance rights was approved by shareholders at the 2016 AGM on 25 October 2016.

### RTSR Measure

The RTSR metric measures the returns provided to carsales shareholders over a 3 year period from 1 July 2016 to 30 June 2019, including movements in share price and dividends paid. The RTSR metric is adjusted for any significant corporate share capital restructuring (for example a stock split or rights issue). The Company's actual TSR is then compared against a comparator group to create a RTSR metric.

The comparator group used in the RTSR calculation is the ASX200 as at 30 June 2016.

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

- if the relative ranking against the comparator group is below the 50th percentile no performance rights or options will be capable of exercise;
- if the relative ranking against the comparator group is at the 50th percentile 50% performance rights or options will be capable of exercise;
- if the relative ranking against the comparator group is between the 50th percentile and the 75th percentile performance rights or options will be capable of exercise on a straight line pro-rata basis from 50% to 100%; and
- if the relative ranking against the comparator group is at or above the 75th percentile 100% performance rights or options will be capable of exercise.

The minimum and maximum EPS and RTSR targets for the options and performance rights have been set by the Board, with a testing date of 30 June 2019 and are exercisable after the Board releases the Annual Report to the ASX for FY19.

### Long-Term Incentive Plan Summary – FY17 Grant

<b>Selection of performance measures</b>	<p>The rationale for the choice of EPS as a target has been historically as a result of having only a small pool of relevant comparable peers, being other ASX listed online corporations, and the direct alignment to changes in shareholder wealth. However following feedback from shareholders who sought an additional performance metric be added by the Company to the LTI plan, the Board introduced a second performance measure being Relative Total Shareholder Return (RTSR) for awards made under the FY17 LTI plan, as well as the EPS target.</p> <p>The Company selected the ASX 200 as the comparator group for the RTSR metric as there are not enough similar domestic peers of appropriate size and risk profile to make a customised comparator group meaningful.</p>
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The following unvested awards are outstanding for the FY17 award:

	<b>Award Date</b>	<b>Number of options</b>	<b>Number of performance rights</b>	<b>Options exercise price \$</b>	<b>Performance rights exercise price \$</b>	<b>Vesting Date</b>
Managing Director	28/10/2016	149,907	31,287	12.23	0	August 2019
Other Senior Executives	28/10/2016	247,347	51,625	12.23	0	August 2019

### 5.5.3 Long-Term Incentive Plan Structure – FY16 Grant vesting in FY18

#### Long-Term Incentive Plan Summary – FY16 Grant

<b>Participants</b>	Eligible employees under the carsales.com Ltd Employee Option Plan, established via a prospectus lodged with ASIC in 2000. Upon recommendation by the Remuneration and Nomination Committee, the Board determines who is eligible to participate in the plan.
<b>Award vehicle</b>	<p>The LTI awards are a combination of options and performance rights and are issued for no cash consideration.</p> <p>50% of the total value of the award is awarded in options with an exercise price of \$10.24, being the volume weighted average price of the Company's Shares for the 21 days prior to 1 July 2015.</p> <p>Options and performance rights are issued subject to vesting rules and expiry periods and vest on fixed dates provided employment has not been terminated, and EPS targets have been achieved.</p> <p>50% of the total value of the award is awarded in performance rights with a \$0 exercise price.</p> <p>No dividends are paid during the performance period and until the rights or options vest/are exercised by the Senior Executive. Amounts received on the exercise of options are recognised as share capital.</p> <p>Options and performance rights issued to the CEO contain the same terms, conditions and performance targets as those issued to Senior Executives.</p>
<b>Performance period</b>	Performance is measured over a three-year period to 30 June 2018. The expiry date of the FY16 award is five years from the grant date.

## Long-Term Incentive Plan Summary – FY16 Grant

<b>Performance measures</b>	<p>Options and performance rights for the FY16 award are subject to an EPS target. They are capable of exercise, at the testing date of 30 June 2018 if the EPS target for the relevant period has been achieved or exceeded as follows:</p> <ul style="list-style-type: none"><li>• if the EPS achieved is equal to the minimum target, 70% of the vested options and performance rights will be capable of exercise;</li><li>• 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</li><li>• 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 70% and 100%.</li></ul> <p>Minimum and maximum EPS targets for the options and performance rights were set for the period ending 30 June 2018 and the award of options and performance rights was approved by shareholders at the 2015 AGM on 23 October 2015. The achievement against the targets set for the year ended 30 June 2018 are set out below this table.</p> <p>EPS targets exclude any corporate activity associated with mergers and acquisitions, corporate or capital re-organisations that have occurred after 23 October 2015.</p>
<b>Selection of performance measures</b>	<p>The rationale for the choice of EPS as a target for the FY16 LTI plan was a result of having only a small pool of relevant comparable peers, being other ASX listed online corporations, and the direct alignment to changes in shareholder wealth from the growth in earnings per share.</p>

### 5.5.3.1 FY16 LTI award achievement

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

LTI	Vesting date	Minimum entitlement		Maximum entitlement		Actual achieved	
		% payable	EPS target (\$)	% payable	EPS target (\$)	% payable	EPS target (\$)
Grant	August 2018	70%	0.529	100%	0.588	72.9%	0.535

The actual EPS achieved for the LTI grant vesting in August 2018 of \$0.535 per share is below the reported FY18 EPS of \$0.763 cents per share and the FY18 adjusted EPS of \$0.540. In calculating the achieved EPS of \$0.535 per share the Company excluded the earnings and related costs from the following acquisitions and investments that occurred after the AGM Notice of Meeting date of 21 September 2015:

- soloautos – acquired October 2015
- chileautos – acquired March 2016
- PromisePay – acquired May 2016
- Demotores Group – acquired February 2017
- SK ENCARSALES.COM Ltd – acquired January 2018

In addition, all of the one-off items of a corporate nature incurred in the FY18 year excluded in calculating adjusted NPAT (such as the net fair value gain on the step acquisition of associate) as set out in note 6 to the accounts have been excluded from the calculation of the achieved EPS. The actual EPS achieved above includes a pro-forma adjustment to include SK ENCARSALES.COM Ltd at 49.9% ownership by carsales for the full period to 30 June 2018 to reflect the same ownership basis on which the EPS targets were originally set in FY16.

The amounts payable (cash value at 30 June 2018) under the LTI grant vesting in August 2018 are as follows:

2018	Vested \$	Vested %	Forfeited %	Forfeited \$
C McIntyre	566,898	72.9%	27.1%	210,739
A Bhatia	245,925	72.9%	27.1%	91,419
A Saines	323,453	72.9%	27.1%	120,243
P Barlow	164,767	72.9%	27.1%	61,250
A Demery	93,775	72.9%	27.1%	34,858

## 5.6 Non-monetary benefits and other payments

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.

## 5.7 Non-Executive Directors' remuneration

The current base remuneration pool was 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.

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.

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.

## Remuneration Report continued

The following fee table applies:

	<b>1 July 2017 fee table \$</b>	<b>1 March 2018 fee table \$</b>
Chair fee	295,000	340,000
Deputy Chair fee	140,000	N/A
Base Director fee	120,000	140,000
Alternate Director fee*	110,000	N/A
First committee	25,000	N/A
Second committee	30,000	N/A
Committee Chair fee	N/A	35,000
Committee Member fee	N/A	15,000

\* Alternate Director fees were payable up to 27 November 2017 after which the Board determined that fees should only apply for full time Directors of the Company.

On 1 March 2018 a new structure for Board fees was introduced. The fees for Committee membership and Committee Chair were amended to reflect the increasing time and responsibility performing the duties of a Chair of a Committee. Prior to 1 March 2018, the Board determined that the fee for a Second Committee should be slightly higher than the First Committee fee to recognise the significant additional time required of members serving on two Board committees.

The Non-Executive Directors had the following committee and other roles during the year:

From 1 July 2017 – 28 February 2018:

<b>Name</b>	<b>Board Chair</b>	<b>Board Deputy Chair</b>	<b>Audit and Risk Management Committee member</b>	<b>Nomination and Remuneration Committee member</b>	<b>Subsidiary Board member</b>
J Browne*	✓				
R Collins*		✓	✓		✓
W Pisciotta					
P O'Sullivan			✓	✓	
K Anderson			✓	✓	
E Gilbert				✓	

\* Mr Browne retired as Chair of the Board and a Director on 23 March 2018 and Mr Collins became Board Chair at that time.

From 1 March 2018 – 30 June 2018:

<b>Name</b>	<b>Board Chair</b>	<b>Audit and Risk Management Committee Chair</b>	<b>Audit and Risk Management Committee member</b>	<b>Nomination and Remuneration Committee Chair</b>	<b>Nomination and Remuneration Committee member</b>
R Collins	✓				
W Pisciotta					
P O'Sullivan		✓			✓
K Anderson			✓	✓	
E Gilbert			✓		✓

Steven Kloss was remunerated as an Alternate Director for Mr Wal Pisciotta up until 1 December 2017. From 1 December 2017, the Company and Mr Kloss agreed that the position of Alternate Director would not be remunerated. Mr Kloss is invited to attend all Board meetings to ensure he is adequately informed on all matters in the event he is required to step in for Mr Pisciotta.

## 5.8 Additional information

### 5.8.1 Minimum Shareholding Requirements

#### Board

The Company requires all Board members to hold the equivalent of one year's base Director's fees in equity after 24 months Board membership. All Board members currently meet this requirement.

#### Senior Executives

The Company does not have a documented minimum shareholding requirement for Senior Executives, but encourages Senior Executives to hold shares in the Company and requests the CEO to raise the issue of shareholding with any Senior Executive who does not hold what is viewed by the Board as a reasonable amount of Company shares. In addition, through the LTI plan the Board is able to incorporate a significant portion of a Senior Executive's total remuneration in equity to ensure alignment with shareholders' interests.

### 5.8.2 STI, DSTI and LTI Payments (cash, options & performance rights) achievement against maximum entitlement

All Senior Executives received grants that were equal to or less than their maximum potential STI & DSTI entitlements. The relative proportions of remuneration which are linked to performance and those that are fixed based on the accounting values table in section 4.2 are as follows:

Name	Cash salary and superannuation		At risk – STI		At risk – DSTI		At risk – LTI	
	2018 %	2017 %	2018 %	2017 %	2018 %	2017 %	2018 %	2017 %
<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	100	–	–	–	–	–	–
Steve Kloss (Alternate)	100	100	–	–	–	–	–	–
<b>Executive Directors</b>								
Cameron McIntyre	51	75	25	19	5	5	19	1
<b>Other Senior Executives</b>								
Ajay Bhatia	60	78	22	16	5	5	13	1
Anthony Saines	56	72	24	22	5	5	15	1
Paul Barlow	60	73	24	21	5	5	11	1
Andrew Demery*	63	N/D	24	N/D	4	N/D	9	N/D

\* Not disclosed as Andrew Demery was not considered a KMP in FY17.

## Remuneration Report continued

### 5.8.3 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 2012	August 2014	October 2017	\$5.93	\$2.33	100	Yes
October 2012	August 2015	October 2017	\$5.93	\$2.43	75	Yes
October 2014	August 2017	October 2019	\$10.71	\$2.36	–	No <sup>(i)</sup>
October 2014	August 2017	October 2019	\$0.00	\$9.12	–	No <sup>(i)</sup>
October 2015	August 2017	October 2020	\$0.00	\$8.74	80	Yes
October 2015	August 2018	October 2020	\$10.24	\$1.86	73	Yes
October 2015	August 2018	October 2020	\$0.00	\$8.44	73	Yes
October 2016	August 2018	October 2031	\$0.00	\$9.86	78	Yes <sup>(ii)</sup>
October 2016	August 2019	October 2031	\$0.00	\$9.49	n/a	To be determined
October 2016	August 2019	October 2031	\$0.00	\$4.87	n/a	To be determined
October 2016	August 2019	October 2031	\$12.23	\$1.10	n/a	To be determined
October 2016	August 2019	October 2031	\$12.23	\$0.98	n/a	To be determined
October 2017	August 2020	October 2032	\$0.00	12.06	n/a	To be determined
October 2017	August 2020	October 2032	\$11.41	3.25	n/a	To be determined
July 2018	August 2019	October 2033	\$0.00	13.87	n/a	Yes <sup>(iii)</sup>

(i) LTI options and performance rights granted in October 2014 that were exercisable in August 2017 did not vest as a result of the Company not meeting the minimum EPS target which had been set.

(ii) Subject to satisfactory completion of the remaining service period 78% of this award is expected to vest in August 2018 based on the performance achievements tested at 30 June 2017 as set out in the FY17 annual report.

(iii) Relates to performance rights granted under the FY18 STI plan for the 25% portion of the total STI award that is deferred in equity. Subject to satisfactory completion of the remaining service period this award is expected to vest in August 2019.

\$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.

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, (c) where EPS or RTSR 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:

<b>Name</b>	<b>Number of options granted during the year 2018</b>	<b>Number of performance rights granted during the year 2018</b>	<b>Value of options at grant date 2018 \$</b>	<b>Value of performance rights at grant date 2018 \$</b>	<b>Number of options and performance rights vested during the year 2018</b>
<b>Executive Directors</b>					
C McIntyre	115,243	86,486	375,001	1,068,573	93,281
<b>Senior Executives</b>					
A Bhatia	32,268	26,980	105,000	337,542	42,426
A Saines	32,268	27,239	105,000	341,124	52,910
P Barlow	18,439	16,853	60,000	212,788	28,956
A Demery	13,829	12,314	45,000	155,070	15,292

Further information on the options and performance rights is set out in Note 25 to the financial statements.

#### 5.8.4 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.

<b>Name</b>	<b>Date of exercise of options and performance rights</b>	<b>Number of ordinary shares issued on exercise of options and performance rights during the year</b>	<b>Value at exercise date* \$</b>
Directors of carsales.com Ltd			
C McIntyre	August 2017	9,150	125,813
Senior Executives			
A Bhatia	August 2017	5,032	69,190
A Saines	August 2017	5,050	69,438
P Barlow	August 2017	3,660	50,325
A Demery	-	-	-

\* 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.

#### 5.8.5 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 is 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.

## 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 \$
C McIntyre	2016	-	27	2018*	-	255,152
	2017	-	22	2018*	-	78,000
	2017	-	-	2019*	-	157,574
	2018	-	-	2019*	-	104,231
	2018	-	-	2020*	-	955,884
A Bhatia	2016	-	27	2018*	-	109,349
	2017	-	22	2018*	-	42,899
	2017	-	-	2019*	-	78,789
	2018	-	-	2019*	-	49,832
	2018	-	-	2020*	-	267,644
A Saines	2016	-	27	2018*	-	145,797
	2017	-	22	2018*	-	43,053
	2017	-	-	2019*	-	98,486
	2018	-	-	2019*	-	51,761
	2018	-	-	2020*	-	267,644
P Barlow	2016	-	27	2018*	-	72,901
	2017	-	22	2018*	-	31,202
	2017	-	-	2019*	-	55,153
	2018	-	-	2019*	-	39,192
	2018	-	-	2020*	-	152,944
A Demery	2016	-	27	2018*	-	42,732
	2017	-	22	2018*	-	15,597
	2017	-	-	2019*	-	27,575
	2018	-	-	2019*	-	26,958
	2018	-	-	2020*	-	114,709

\* 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.

**2018**

<b>Name</b>	<b>Balance at start of the year</b>	<b>Granted as compensation (including performance rights)</b>	<b>Exercised</b>	<b>Forfeited</b>	<b>Other change</b>	<b>Balance at the end of the year</b>	<b>Vested and exercisable<sup>(i)</sup></b>	<b>Unvested</b>
<b>Non-Executive Directors</b>								
J Browne	-	-	-	-	-	-	-	-
R Collins	-	-	-	-	-	-	-	-
W Pisciotta	-	-	-	-	-	-	-	-
P O'Sullivan	-	-	-	-	-	-	-	-
K Anderson	-	-	-	-	-	-	-	-
E Gilbert	-	-	-	-	-	-	-	-
S Kloss (Alternate)	-	-	-	-	-	-	-	-
<b>Executive Directors</b>								
C McIntyre	317,591	187,773	(9,150)	(33,967)	-	462,247	93,280	368,967
<b>Other Senior Executives</b>								
A Bhatia	153,436	52,576	(5,032)	(15,381)	-	185,599	42,426	143,173
A Saines	190,485	52,576	(5,050)	(19,277)	-	218,734	52,911	165,823
P Barlow	106,516	30,044	(3,660)	(10,481)	-	122,419	28,956	93,463
A Demery	52,543	22,533	-	(5,543)	-	69,533	15,291	54,242

(i) Represents performance rights under the FY17 DSTI award and options and performance rights under FY16 LTI grant that will vest immediately after the release of the 2018 annual report to the ASX.

# Remuneration Report continued

## (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.

### 2018

Name	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>Non-Executive Directors</b>				
Ordinary shares				
J Browne	30,000	–	(30,000)	-
R Collins	591,282	–	4,406	595,688
W Pisciotta	11,154,733	–	(2,318,435)	8,836,298
P O’Sullivan	9,650	–	5,350	15,000
K Anderson	15,000	–	-	15,000
E Gilbert	25,000	–	-	25,000
S Kloss (Alternate)	2,774,500	–	-	2,774,500
<b>Executive Directors</b>				
C McIntyre	170,762	9,150	–	179,912
<b>Other Senior Executives</b>				
A Bhatia	1,135	5,032	–	6,167
A Saines	16,000	5,050	–	21,050
P Barlow	30,000	3,660	–	33,660
A Demery	–	–	–	–

### 5.8.6 Other transactions with Key Management Personnel

Conflicts and transactions with KMP are handled in accordance with the Board Charter available at [shareholder.carsales.com.au/Investor-Centre/](http://shareholder.carsales.com.au/Investor-Centre/)

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

W Pisciotta is a shareholder and S Kloss (Alternate Director) is the Managing Director and shareholder of Pentana Solutions Pty Ltd, which renewed its relationship agreement with carsales.com Ltd in 2017 for a further 4 years for the supply of data and services. Mr Pisciotta and Mr Kloss absented themselves from all Board discussions on the renewal and review of the agreement and only those directors who are independent of Pentana Solutions were involved in the approval of the agreement. Under the contract, Pentana Solutions supplies data for the exclusive use of carsales.com Ltd in return for a fixed annual payment, plus additional service fees based on the revenues generated through Pentana Solutions. The total amount paid to Pentana for services during FY18 was \$1,341,000, a reduction of 60% for the PCP.

The relationship between the Company and Pentana provided a strong basis for carsales’ success in the advertising of dealer vehicles. It provided carsales with access to a significant amount of dealer inventory in near real time for publishing on the website. While there are now more ways for dealers to send inventory to online classified sites, the Pentana relationship still provides a benefit to carsales and is negotiated on a commercial and arms’ length basis.

R Collins is a shareholder of automotive dealerships which utilised the Group’s services under terms and conditions no more favourable than dealing with other customers at arm’s length in the same circumstances. The total amount paid to carsales by automotive dealerships of which R Collins is a shareholder is approximately \$445,000.

E Gilbert is a Director of automotive dealerships which utilised the Group’s services under terms and conditions no more favourable than dealing with other customers at arm’s length in the same circumstances. The total amount paid to carsales by automotive dealerships of which E Gilbert is a shareholder is approximately \$225,000.

Neither Mr Collins nor Ms Gilbert receive any additional benefits to their dealerships from their participation on the Company Board.

## Other Directors' Report Disclosures

### 5.8.7 Shares under option and performance rights

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

<b>Date options granted</b>	<b>Expiry date</b>	<b>Issue price of shares \$</b>	<b>Number under options</b>	<b>Number under performance rights</b>
Oct-13	Oct-18	\$9.10	32,272	-
Oct-14	Oct-19	\$10.71	27,448	-
Oct-15	Oct-20	\$10.24	566,926	-
Oct-15	Oct-20	\$0.00	-	121,467
Oct-16	Oct-31	\$12.23	865,916	-
Oct-16	Oct-31	\$0.00	-	211,702
Oct-17	Oct-32	\$11.41	364,674	-
Oct-17	Oct-32	\$0.00	-	229,506
			<b>1,857,236</b>	<b>562,675</b>

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 2018.

### 5.8.8 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 2018 on the exercise of options granted under the carsales.com Ltd Employee Option Plan. No amounts are unpaid on any of the shares.

<b>Date options and performance rights exercised</b>	<b>Issue price of shares \$</b>	<b>Number of shares issued</b>
August 2017	\$9.10	2,237
August 2017	\$0.00	35,691
September 2017	\$5.93-\$9.10	200,368
October 2017	\$9.10-\$10.71	1,433
October 2017	\$0.00	11,416
November 2017	\$9.10-\$10.71	7,873
December 2017	\$9.10	3,835
February 2018	\$10.71	5,565
March 2018	\$9.10-\$10.71	9,339
June 2018	\$9.10-\$10.71	12,287
		<b>290,044</b>

## Other Directors' Report Disclosures continued

### 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:

**Richard Collins** Non-Executive Chair – Appointed Chair on 23 March 2018

**Jeffrey Browne** Non-Executive Chair – Retired from the Board on 23 March 2018

**Cameron McIntyre** Managing Director

**Wal Pisciotta** Non-Executive Director

**Kim Anderson** Non-Executive Director

**Pat O'Sullivan** Non-Executive Director

**Edwina Gilbert** Non-Executive Director

**Kee Wong** Non-Executive Director – Appointed to the Board on 9 July 2018

**Steve Kloss** Alternate Non-Executive Director

The number of full Board meetings attended, and sub-committee meetings attended where a Board member is a member of that sub-committee are set out below:

Meetings of Directors	Full scheduled meetings of directors		Short teleconference meetings of directors		Ad hoc meetings of directors	
	A	B	A	B	A	B
Jeffrey Browne (Chair until 23 March 2018)	9	7	2	1	3	3
Richard Collins (Chair from 23 March 2018)	13	13	2	2	3	3
Cameron McIntyre	13	13	2	2	3	3
Wal Pisciotta	13	13	2	1	3	1
Kim Anderson	13	13	2	1	3	3
Pat O'Sullivan	13	13	2	2	3	3
Edwina Gilbert	13	13	2	2	3	3
Steve Kloss (alternate director)	13	12	2	1	3	2

A = Number of meetings held during the time the director held office during the year

B = Number of meetings attended

Director name	Number of Audit and Risk Management Committee meetings during tenure	Number of Audit and Risk Management Committee meetings attended
Pat O'Sullivan (Chair)	4	4
Kim Anderson	4	4
Richard Collins (resigned from Committee 28 February 2018)	3	3
Edwina Gilbert (appointed to Committee 28 February 2018)	1	1

Kee Wong was appointed to the Audit and Risk Committee on 31 July 2018.

Director name	Scheduled meetings of Remuneration and Nomination committee		Ad hoc meetings of Remuneration and Nomination committee	
	A	B	A	B
Kim Anderson (Chair)	2	2	2	2
Pat O'Sullivan	2	2	2	2
Edwina Gilbert	2	2	2	2

A = Number of meetings held during the time the director held office during the year

B = Number of meetings attended

## Dividends – carsales.com Ltd

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

	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
Final fully franked ordinary dividend for the year ended 30 June 2017 of 21.5 cents (2016: 19.5 cents) per share paid on 19 October 2017.	<b>52,035</b>	47,028
Interim fully franked ordinary dividend for the year ended 30 June 2018 of 20.5 cents (2017: 18.7 cents) per share paid on 17 April 2018.	<b>49,719</b>	45,146
	<b>101,754</b>	92,174

At the end of the financial year the Directors have recommended the payment of a fully franked final ordinary dividend of \$57,683,000 (23.7 cents per share) to be paid on 10 October 2018 out of retained earnings at 30 June 2018.

### Significant changes in the state of affairs

During the financial year the Company continued to expand in international markets by acquiring the remaining 50.1% of SK ENCARSALES.COM Ltd in South Korea for \$243,428,000 in January. Further details are set out in Note 21 to the financial statements. Further matters are set out in the Operational and Financial Review on pages 38 to 41.

### Matters subsequent to the end of the financial year

As set out in Note 29 to the financial statements on 3rd July 2018 the Company successfully completed the refinance of its syndicated revolving loan facilities. Pursuant to this refinance, the Company established a new \$545 million debt facility under a Common Terms Deed with tranches that mature in 3 and 5 years. On 4th July 2018, the Company also entered into AUD:KRW Non-Deliverable Cross Currency Swaps with the syndicate banking group with a total notional value of A\$335.0 million, with A\$125.0 million having a maturity of 3 years and A\$210.0 million a maturity of 5 years. Aside from this, no matter or circumstance has arisen since 30 June 2018 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.

## Other Directors' Report Disclosures continued

### 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:

	2018 \$'000	2017 \$'000
<b>Other assurance services</b>		
<i>PwC Australian firm</i>		
Due diligence services	94,400	226,214
<b>Total remuneration for other assurance services</b>	<b>94,400</b>	226,214
<b>Taxation services</b>		
<i>PwC Australian firm</i>		
Tax compliance services	161,671	86,526
Tax consulting and tax advice on acquisitions	28,056	63,102
<b>Total remuneration for taxation services</b>	<b>189,727</b>	149,628
<b>Other advisory services</b>		
Other services	67,867	37,850
<b>Total remuneration for non-audit services</b>	<b>351,994</b>	413,692

## 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 90.

## 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 Director's Report. Amounts in the Director's Report have been rounded off in accordance with that Class Order to the nearest thousand dollars or, in certain cases, to the nearest dollar.

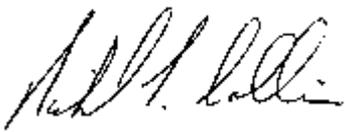
## Auditor

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 2018 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.



Richard Collins  
Chair



Cameron McIntyre  
Managing Director and CEO

Melbourne  
21 August 2018

# Auditor's Independence Declaration



As lead auditor for the audit of carsales.com Limited and its controlled entities for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in black ink that reads 'Lisa Harker'.

Lisa Harker  
Partner  
PricewaterhouseCoopers

Melbourne  
21 August 2018

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# Consolidated Statement of Comprehensive Income

## For the Year Ended 30 June 2018

	Notes	2018 \$'000	2017 \$'000
<b>Revenue from continuing operations</b>			
Sale of goods and services	2	444,009	372,114
<b>Revenue from continuing operations</b>		<b>444,009</b>	372,114
<b>Expenses</b>			
Costs of sale		(48,585)	(34,030)
Sales and marketing expenses		(106,118)	(93,358)
Service development and maintenance		(38,760)	(31,351)
Operations and administration		(45,941)	(36,878)
<b>Earnings before interest, taxes, depreciation and amortisation</b>		<b>204,605</b>	176,497
Depreciation and amortisation expense		(17,363)	(9,966)
Finance income	9	395	640
Finance costs	9	(6,942)	(7,517)
Share of net profit from associates accounted for using the equity method	20(c)	5,143	8,498
Gain/(loss) on associates fair value adjustment and investment dilution	20(e)	1,251	(6,877)
Net gain on step acquisition of associate	21	57,019	–
<b>Profit before income tax</b>		<b>244,108</b>	161,275
Income tax expense	4(a)	(55,901)	(48,261)
<b>Profit from continuing operations</b>		<b>188,207</b>	113,014
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translation of foreign operations		10,032	(8,575)
Reclassification of exchange differences on step acquisition of associate		(14,551)	–
Recycled share of remeasurement of net defined benefit liability of associates	11(a)	185	148
Movement in defined benefit scheme reserve	11(a)	(35)	–
Changes in the fair value of available-for-sale financial assets	11(a)	(715)	29
<b>Other comprehensive income for the year</b>		<b>(5,084)</b>	(8,398)
<b>Total comprehensive income for the year</b>		<b>183,123</b>	104,616
Profit is attributable to:			
Owners of carsales.com Ltd		184,843	109,479
Non-controlling interests		3,364	3,535
		<b>188,207</b>	113,014
Total comprehensive income for the year is attributable to:			
Owners of carsales.com Ltd		179,931	101,145
Non-controlling interests		3,192	3,471
		<b>183,123</b>	104,616
<b>Earnings per share-based on profit from continuing operations, attributable to the ordinary equity holders of the parent entity:</b>			
		<b>Cents</b>	Cents
Basic earnings per share	6	76.3	45.4
Diluted earnings per share	6	76.0	45.3

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 2018

	Notes	2018 \$'000	2017 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	65,061	39,795
Trade and other receivables	14	67,337	48,404
Inventories		2,038	833
<b>Total current assets</b>		<b>134,436</b>	89,032
<b>Non-current assets</b>			
Investments accounted for using the equity method	20(c)	68,150	224,472
Available-for-sale financial assets	20(d)	19,797	13,301
Property, plant and equipment	15	13,909	7,289
Deferred tax assets	4(d)	9,415	5,144
Intangible assets	16	658,955	199,954
Other receivables	14	5,859	–
<b>Total non-current assets</b>		<b>776,085</b>	450,160
<b>Total assets</b>		<b>910,521</b>	539,192
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	17	50,580	42,002
Borrowings	9	246,024	1,755
Other financial liabilities	18	1,300	–
Current tax liabilities		15,819	9,982
Provisions	17	7,598	6,040
Deferred revenue		1,991	6,713
<b>Total current liabilities</b>		<b>323,312</b>	66,492
<b>Non-current liabilities</b>			
Trade and other payables	17	278	–
Borrowings	9	208,734	191,299
Other financial liabilities	18	20,349	–
Deferred tax liabilities	4(e)	20,898	2,923
Provisions	17	1,129	1,318
<b>Total non-current liabilities</b>		<b>251,388</b>	195,540
<b>Total liabilities</b>		<b>574,700</b>	262,032
<b>Net assets</b>		<b>335,821</b>	277,160
<b>EQUITY</b>			
Contributed equity	10	119,541	105,861
Reserves	11(a)	(24,427)	14,149
Retained earnings	11(c)	234,696	151,607
Non-controlling interests		6,011	5,543
<b>Total equity</b>		<b>335,821</b>	277,160

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 2018

	Attributable to owners of carsales.com Ltd				Non- controlling interests \$'000	Total equity \$'000
	Notes	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000		
<b>Balance at 1 July 2016</b>		<b>99,026</b>	<b>22,862</b>	<b>134,302</b>	<b>4,180</b>	<b>260,370</b>
Profit for the year		–	–	109,479	3,535	113,014
Exchange differences on translation of foreign operations		–	(8,511)	–	(64)	(8,575)
Share of remeasurement of net defined benefit liability of associates		–	148	–	–	148
Changes in the fair value of available-for-sale financial assets	11(a)	–	29	–	–	29
<b>Total comprehensive income for the year</b>		<b>–</b>	<b>(8,334)</b>	<b>109,479</b>	<b>3,471</b>	<b>104,616</b>
<b>Transactions with owners in their capacity as owners:</b>						
Contributions of equity upon exercise of employee share options	10(b)	467	–	–	–	467
Share capital contributed by non-controlling interests		–	–	–	150	150
Dividends paid to members of the parent	12	6,368	–	(92,174)	–	(85,806)
Dividends paid to non-controlling interests		–	–	–	(2,258)	(2,258)
Decrease in share-based payment reserve inclusive of tax		–	(379)	–	–	(379)
<b>Balance at 30 June 2017</b>		<b>105,861</b>	<b>14,149</b>	<b>151,607</b>	<b>5,543</b>	<b>277,160</b>
	Notes	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Non- controlling interests \$'000	Total equity \$'000
<b>Balance at 1 July 2017</b>		<b>105,861</b>	<b>14,149</b>	<b>151,607</b>	<b>5,543</b>	<b>277,160</b>
Profit for the year		–	–	184,843	3,364	188,207
Exchange differences on translation of foreign operations		–	10,204	–	(172)	10,032
Reclassification of exchange difference on step acquisition of associate		–	(14,551)	–	–	(14,551)
Recycled share of remeasurement of net defined benefit liability of associates	11(a)	–	185	–	–	185
Movement in defined benefit scheme reserve	11(a)	–	(35)	–	–	(35)
Changes in the fair value of available-for-sale financial assets	11(a)	–	(715)	–	–	(715)
<b>Total comprehensive income for the year</b>		<b>–</b>	<b>(4,912)</b>	<b>184,843</b>	<b>3,192</b>	<b>183,123</b>
<b>Transactions with owners in their capacity as owners:</b>						
Contributions of equity upon exercise of employee share options	10(b)	1,623	–	–	–	1,623
Dividends paid to members of the parent	12	12,057	–	(101,754)	–	(89,697)
Dividends paid to non-controlling interests	20(c)	–	–	–	(2,592)	(2,592)
Increase in share-based payment reserve inclusive of tax		–	3,226	–	–	3,226
Non-controlling interests on acquisition of subsidiary		–	–	–	1,122	1,122
Transactions with non-controlling interests	11(a)	–	(36,890)	–	(1,254)	(38,144)
<b>Balance at 30 June 2018</b>		<b>119,541</b>	<b>(24,427)</b>	<b>234,696</b>	<b>6,011</b>	<b>335,821</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 2018

	Notes	2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (including GST)		467,930	403,815
Payments to suppliers and employees (including GST)		(295,822)	(235,272)
Income taxes paid		(52,774)	(43,767)
<b>Net cash inflow from operating activities</b>	5	<b>119,334</b>	124,776
<b>Cash flows from investing activities</b>			
Investment in subsidiaries, net of cash acquired		(231,226)	(6,654)
Investment in associates		(466)	(1,040)
Investment in available-for-sale financial assets		(764)	–
Payments for property, plant and equipment		(3,548)	(2,395)
Payments for intangible assets		(5,214)	(469)
Interest received		395	640
Proceeds from sale of property, plant and equipment		169	38
Proceeds from sale of business		–	1,402
Dividends received from associates		1,550	11,994
Capital reduction in associates		–	13,511
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(239,104)</b>	17,027
<b>Cash flows from financing activities</b>			
Proceeds from issues of shares and other equity securities		1,623	467
Proceeds from borrowings		334,525	73,510
Repayment of borrowings		(74,820)	(107,576)
Dividends paid to non-controlling interests		(2,592)	(2,258)
Dividends paid to Company shareholders	12	(89,697)	(85,806)
Purchase of non-controlling interests		(13,592)	–
Interest paid		(10,120)	(7,561)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>145,327</b>	(129,224)
<b>Effects of exchange rates on cash and cash equivalents</b>		<b>(291)</b>	(1,493)
<b>Net increase in cash and cash equivalents</b>		<b>25,266</b>	11,086
Cash and cash equivalents at the beginning of the financial year		39,795	28,709
<b>Cash and cash equivalents at end of year</b>	8	<b>65,061</b>	39,795

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

# Notes to the Consolidated Financial Statements

## 30 June 2018

### 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 and Chief Executive Officer's Report to shareholders on page 8, and in the Directors' Report on page 38, each of which are not part of this Financial Report.

The Financial Report was authorised for issue by the Directors on 21 August 2018. 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 which 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 which 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.

## 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;
- full year dividend declared – Note 12;
- acquisition of the remaining 50.1% of SK ENCARSALES.COM Ltd (SK Encar) – Note 21; and
- new debt facilities entered into on 3rd July 2018 – Note 29.

## 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);
- valuation of share-based payments – Note 25;
- fair value on acquisition of the remaining 50.1% of SK ENCARSALES.COM Ltd (SK Encar) – Note 21;
- carrying value of equity accounted investment in Webmotors – Note 20(c);
- fair value of put options liability – Note 18; and
- trade receivables and provisioning – Note 14.

## 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. FY17 payroll costs for subsidiaries have been reclassified based on the relevant function.

### (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. At 30 June 2018, the Group was in a net current liability position of \$188,876,000, principally driven by the \$246,000,000 borrowings current liability drawn down to purchase the 50.1% of SK ENCARSALES.COM Ltd in January 2018 that is repayable in January 2019. As set out in Note 29, the Group's main debt facilities were refinanced on 3 July 2018, with the existing current liabilities repaid and the maturity of the new facilities being 3–5 years from initial drawdown.

## 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 2018 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.

## Foreign currency translation

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 which 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

The Group has applied the following standards and amendments for the first time for its annual reporting period commencing 1 July 2017:

- Amendment to AASB 7: Statement of Cash Flow requiring entities to provide disclosures regarding the changes in liabilities arising from financing activities; and
- Amendment to AASB 12: Income Taxes provides guidance on consideration of tax law restrictions for the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference and the determination of future taxable profits.

The adoption of these amendments did not have any impact on the amounts recognised in the current period or any prior period and is not likely to affect future periods.

## 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 CEO.

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

#### (a) Description of segments

The Group principally operates in five business segments: namely Online Advertising Services, Data, Research and Services, Latin America, Asia, and Finance and Related Services.

##### Online Advertising Services

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

##### Data, Research and 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 segments

carsales.com Ltd has operations in overseas countries through subsidiaries, equity accounted associate investments and available-for-sale financial assets as set out below. With the acquisition of the remaining 50.1% of SK ENCARSALES.COM Ltd in January 2018, the Group has split the previous International segment into Latin America and Asia.

##### Latin America

Online Automotive Classifieds:

- Webmotors S.A.(operations in Brazil) – 30%
- Chileautos SpA (operations in Chile) – 83.3%
- carsales Mexico SAPI de CV (operations in Mexico) – 100%
- Demotores Chile SpA (operations in Chile) – 100%
- Demotores S.A. (operations in Argentina) – 100%
- Demotores Colombia S.A.S. (operations in Colombia) – 100%

# Notes to the Consolidated Financial Statements continued

## 30 June 2018

### Asia

Online Automotive Classifieds:

- iCar Asia Limited (operations in Indonesia, Malaysia and Thailand) – 13.1%
- SK ENCARSALSALES.COM Ltd (operations in South Korea) – 100%

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%

### Finance and Related Services

Finance and Related Services includes the Stratton Finance Pty Ltd (50.1%) 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 (18.6%) and PromisePay Pte Ltd (7.1% – equity accounted until January 2018).

### (b) Segment analysis

2018	Online Advertising Services \$'000	Data, Research and Services \$'000	Latin America \$'000	Asia \$'000	Finance and Related Services \$'000	Total \$'000
<b>Segment revenue</b>						
Segment revenue (Note 1(c)(i))	295,591	41,888	8,215	29,868	68,447	444,009
<b>Total segment revenue</b>	<b>295,591</b>	<b>41,888</b>	<b>8,215</b>	<b>29,868</b>	<b>68,447</b>	<b>444,009</b>
<b>Gross profit</b>	<b>266,001</b>	<b>41,382</b>	<b>8,215</b>	<b>29,868</b>	<b>49,958</b>	<b>395,424</b>
<b>EBITDA</b>	<b>156,075</b>	<b>25,109</b>	<b>(2,541)</b>	<b>15,842</b>	<b>10,120</b>	<b>204,605</b>
Depreciation and amortisation						(17,363)
Net interest expense						(6,547)
Profit before income tax						180,695
Income tax expense						(55,901)
Share of profit/(loss) from associates			3,628	3,489	(1,974)	5,143
Net gain on step acquisition of associate				57,019		57,019
Gain on associate dilution					1,251	1,251
Non-controlling interests						(3,364)
<b>Profit for the year</b>						<b>184,843</b>
<b>Segment assets</b>	<b>128,813</b>	<b>15,967</b>	<b>86,377</b>	<b>469,030</b>	<b>79,573</b>	<b>779,760</b>
Deferred tax assets						9,415
Unallocated assets						121,346
<b>Total assets</b>						<b>910,521</b>

2017	Online Advertising Services \$'000	Data, Research and Services \$'000	International* \$'000	Finance and Related Services \$'000	Total \$'000
<b>Segment revenue</b>					
Segment revenue (Note 1(c)(i))	269,131	39,314	8,313	55,356	372,114
<b>Total segment revenue</b>	269,131	39,314	8,313	55,356	372,114
<b>Gross profit</b>	245,904	39,119	8,313	44,748	338,084
<b>EBITDA</b>	142,710	23,378	(93)	10,502	176,497
Depreciation and amortisation					(9,966)
Net interest expense					(6,877)
Profit before income tax					159,654
Income tax expense					(48,261)
Share of profit/(loss) from associates			9,992	(1,494)	8,498
Associate fair value revaluation loss			(7,145)		(7,145)
Gain on associate dilution				268	268
Non-controlling interests					(3,535)
<b>Profit for the year</b>					109,479
<b>Segment assets</b>	111,847	15,687	249,698	78,626	455,858
Deferred tax assets					5,144
Unallocated assets					78,190
<b>Total assets</b>					539,192

\* The International Segment above has not been restated into separate Asia and Latin America segments consistent with FY18 as the Asia segment was not material prior to the acquisition of SK ENCARSALES.COM Ltd in January 2018.

## (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, trade receivables, available-for-sale financial assets and investments accounted for using equity method. 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.

# Notes to the Consolidated Financial Statements continued

## 30 June 2018

### 2. Revenue

	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
<b>From continuing operations</b>		
<i>Sales revenue</i>		
Sale of services	<b>396,771</b>	338,250
Sale of goods	<b>47,238</b>	33,864
	<b>444,009</b>	372,114

#### 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 and short-term time based contracts 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 research and development claim of the Company gives rise to a tax offset and this tax offset is recognised as other income.

### 3. Expenses

	2018 \$'000	2017 \$'000
<b>Profit before income tax includes the following specific expenses:</b>		
Total employee benefits	<b>102,107</b>	86,231
Defined contribution superannuation expense	<b>7,623</b>	7,376
Defined benefit expense – SK ENCARSALES.COM Ltd	<b>480</b>	–
Research and development	<b>6,043</b>	6,044
Minimum lease payments	<b>7,767</b>	6,275

#### Recognition and measurement

##### (i) Retirement benefit obligations

Employees of the Group are entitled to benefits on retirement, disability or death from the Group's various retirement benefit plans. The carsales.com Ltd and the Group's Australian subsidiaries have a number of defined contribution plans as required by Australia law. The defined contribution plans receive fixed contributions from the relevant employing Australian 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 carsales.com Ltd retirement plan. Employees of subsidiary companies in Australia are members of the relevant defined contribution plans operated by the subsidiary companies. Employees of International subsidiaries (except South Korea) are members of various government insurance and retirement schemes where the Company is required to make mandatory deductions from employee pay to contribute towards these schemes.

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.

SK ENCARSALES.COM Ltd, the Group's subsidiary in South Korea, operates a defined benefit plan, under which amounts to be paid as retirement benefits are determined by reference to a formula based on employee's earnings and years of service. The defined benefit asset or liability comprises the present value of the defined benefit obligation, less past service costs and actuarial gains and losses not yet recognised and less the fair value of plan assets out of which the obligations are to be settled. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. The discount rate used in calculating the present value of defined benefit obligations is determined by reference to market yields at the end of the reporting period on high quality corporate bonds of a term consistent with the term of the post-employment benefit obligations. Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest, and the return on plan assets, are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur.

Re-measurements are not reclassified to profit or loss in subsequent periods. Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Company recognised restructuring-related costs.

##### (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. Internally capitalised labour cost are treated as an operating cash outflow in the consolidated statements of cash flows.

##### (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.

# Notes to the Consolidated Financial Statements continued

30 June 2018

## 4. Income tax

### (a) Income tax expense

	2018 \$'000	2017 \$'000
Current tax	59,270	49,244
Adjustments for current tax of prior periods	(1,321)	(1,464)
Deferred tax	(2,656)	(903)
Adjustments for deferred tax of prior periods	608	1,384
	<b>55,901</b>	<b>48,261</b>
Deferred income tax expense included in income tax expense comprises:		
(Increase)/Decrease in deferred tax assets	(2,355)	808
Increase/(Decrease) in deferred tax liabilities	307	(327)
	<b>(2,048)</b>	<b>481</b>

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

	2018 \$'000	2017 \$'000
Profit from continuing operations before income tax expense	244,108	161,275
Tax at the Australian tax rate of 30.0% (2017 – 30.0%)	73,232	48,383
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-assessable income (R&D tax offset)	(272)	(300)
Share options	(172)	168
Sundry items	799	576
Adjustment for prior periods	(557)	(80)
Recognition of previously unrecognised tax losses	(156)	–
Share of (profit)/losses from associates	(1,543)	(2,549)
Non-taxable gain on associate dilution	(375)	(80)
Net gain on step acquisition of associate (non-assessable)	(17,106)	–
Withholding Tax on distribution of SK Encar pre-acquisition profits	2,051	–
Non-deductible impairment loss	–	2,143
Income tax expense	<b>55,901</b>	<b>48,261</b>

### (c) Amounts recognised directly into equity

Aggregate current and deferred tax arising in the reporting period and not recognised in the Income Statement or other comprehensive income but directly (credited) or debited to equity:

	2018 \$'000	2017 \$'000
Current tax – debited/(credited) directly to equity	52	(474)
Net deferred tax – (credited)/debited directly to equity	(1,252)	598
	<b>(1,200)</b>	<b>124</b>

#### (d) 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	Tax losses \$'000	Other \$'000	Total \$'000
<b>At 1 July 2016</b>	2,145	1,714	564	1,756	(490)	215	174	6,078
(Charged)/credited to the profit or loss	(475)	(474)	(305)	97	(670)	1,166	(147)	(808)
Debited directly to equity	-	(124)	-	-	-	-	-	(124)
Exchange differences	-	-	-	-	-	(2)	-	(2)
<b>At 30 June 2017</b>	<b>1,670</b>	<b>1,116</b>	<b>259</b>	<b>1,853</b>	<b>(1,160)</b>	<b>1,379</b>	<b>27</b>	<b>5,144</b>
Acquisition of subsidiary	14	-	-	582	-	-	75	671
(Charged)/credited to the profit or loss	1,054	52	317	(90)	(539)	1,559	2	2,355
Credited directly to equity	-	1,200	-	-	-	-	-	1,200
Exchange differences	-	-	-	-	-	8	37	45
<b>At 30 June 2018</b>	<b>2,738</b>	<b>2,368</b>	<b>576</b>	<b>2,345</b>	<b>(1,699)</b>	<b>2,946</b>	<b>141</b>	<b>9,415</b>

	2018 \$'000	2017 \$'000
Deferred tax assets to be recovered within 12 months	4,601	3,338
Deferred tax assets to be recovered after more than 12 months	4,814	1,806
	<b>9,415</b>	<b>5,144</b>

Certain liability balances are shown as part of deferred tax assets, as they originate in the same jurisdiction as, and can be offset against, other deferred tax assets. The liability balance for intangibles shown as part of deferred tax assets relates to in-house developed and capitalised software in Australia.

#### (e) Deferred tax liabilities

The balance comprises temporary differences attributable to:

	Intangibles \$'000	Withholding Tax* \$'000	Total \$'000
<b>At 1 July 2016</b>	1,729	-	1,729
Charged/(credited) to the profit or loss	(327)	-	(327)
Intangibles recognised from business acquisition	1,521	-	1,521
<b>At 30 June 2017</b>	<b>2,923</b>	<b>-</b>	<b>2,923</b>
Charged/(credited) to the profit or loss	(770)	1,077	307
Intangibles recognised from business acquisition	17,129	-	17,129
Exchange differences	539	-	539
<b>At 30 June 2018</b>	<b>19,821</b>	<b>1,077</b>	<b>20,898</b>

\* Represents South Korean Withholding Tax provided on undistributed profits that is expected to be remitted.

# Notes to the Consolidated Financial Statements continued

## 30 June 2018

	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
Deferred tax liabilities expected to be settled within 12 months	<b>2,614</b>	342
Deferred tax liabilities expected to be settled after more than 12 months	<b>18,284</b>	2,581
	<b>20,898</b>	2,923

### 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.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to tax authorities.

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 nor 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 controlled entities 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.

Where there are current and deferred tax balances attributable to amounts recognised directly in equity, there are also recognised directly in equity.

### Tax consolidation legislation

The Company 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 Group.

## Critical accounting estimates and assumptions used for income tax

### Uncertain tax positions

The Group applies its current understanding of the tax law to estimate tax liabilities where the ultimate tax position is uncertain. When the tax position is ultimately determined or tax laws change, the actual tax liability may differ from this current estimate.

### Research and development claim

The research and development claim available to the Company is estimated in the accounts because a full assessment of the position cannot be made by the year end. It is the policy of the Company to only bring to account that preliminary portion of expenses that is reasonably expected to be claimable at period end.

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

	2018 \$'000	2017 \$'000
Profit for the year	<b>188,207</b>	113,014
Depreciation and amortisation	<b>17,363</b>	9,966
Non-cash employee benefits expense - share-based payments	<b>2,025</b>	(255)
Loss on disposal of assets	<b>(59)</b>	90
Net finance related costs	<b>6,547</b>	7,137
Share of (profit) of associates	<b>(5,143)</b>	(8,498)
Withholding Tax on distribution of SK Encar pre-acquisition profits	<b>2,051</b>	–
(Gain)/Loss on associate fair value adjustment and investment dilution	<b>(1,251)</b>	6,877
Net gain on step acquisition of associate	<b>(57,019)</b>	–
Other	–	(84)
Change in operating assets and liabilities:		
(Increase) in trade debtors	<b>(15,758)</b>	(4,604)
(Increase)/Decrease in inventory	<b>(1,205)</b>	279
(Increase)/Decrease in deferred tax assets	<b>(2,400)</b>	934
Capitalised labour	<b>(11,739)</b>	(9,218)
(Decrease)/Increase in trade creditors and other liabilities	<b>(2,408)</b>	4,843
(Decrease)/Increase in deferred revenue	<b>(4,722)</b>	113
Increase in provision for income taxes payable	<b>2,630</b>	3,349
Increase in deferred tax liabilities	<b>846</b>	822
Increase in other provisions	<b>1,369</b>	11
Net cash inflow from operating activities	<b>119,334</b>	124,776

# Notes to the Consolidated Financial Statements continued

## 30 June 2018

### 6. Earnings per share

#### (a) Reported earnings per share

	Basic earnings per share		Diluted earnings per share	
	2018	2017	2018	2017
Reported profit attributable to equity holders of the Company	<b>184,843,000</b>	109,479,000	<b>184,843,000</b>	109,479,000
Weighted average number of ordinary shares	<b>242,371,937</b>	241,383,158	<b>242,371,937</b>	241,383,158
Dilutive impact of potential ordinary shares*	–	–	<b>749,616</b>	491,188
Total weighted average number of ordinary shares used in EPS calculation	<b>242,371,937</b>	241,383,158	<b>243,121,553</b>	241,874,346
Reported earnings per share/cents	<b>76.3</b>	45.4	<b>76.0</b>	45.3

\*The dilutive impact of potential ordinary shares represents unexercised options and performance rights as at the balance date 30 June 2018 (2017: 30 June 2017).

#### (b) Adjusted earnings per share

	Basic earnings per share		Diluted earnings per share	
	2018	2017	2018	2017
Reported profit attributable to equity holders of the Company	<b>184,843,000</b>	109,479,000	<b>184,843,000</b>	109,479,000
Less: gain on associate dilution	<b>(939,000)</b>	(268,000)	<b>(939,000)</b>	(268,000)
Less: net gain on step acquisition of associate	<b>(57,019,000)</b>	–	<b>(57,019,000)</b>	–
Less: associate one-off tax loss/(gain)	–	(804,000)	–	(804,000)
Less: changes in fair value of put option liabilities and deferred consideration	<b>(4,019,000)</b>	–	<b>(4,019,000)</b>	–
Add: Withholding Tax on SK Encar pre-acquisition profits	<b>2,051,000</b>	–	<b>2,051,000</b>	–
Add: finance cost write off	<b>397,000</b>	–	<b>397,000</b>	–
Add: option unwinding discount	<b>341,000</b>	–	<b>341,000</b>	–
Add: associate fair value revaluation loss	–	7,145,000	–	7,145,000
Add: acquired intangibles amortisation	<b>5,330,000</b>	3,578,000	<b>5,330,000</b>	3,578,000
Adjusted profit attributable to equity holders of the Company	<b>130,985,000</b>	119,130,000	<b>130,985,000</b>	119,130,000
Adjusted earnings per share/cents**	<b>54.0</b>	49.4	<b>53.9</b>	49.3

\*\*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 net gain on step acquisition of associate, gain on associate dilution, associate one-off tax gain, option movement in fair value, finance cost write off, option unwinding discount, associate fair value revaluation loss 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; and
- 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 25.

## CAPITAL AND FINANCIAL RISK MANAGEMENT

### 7. Capital risk management

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

	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
Borrowings (Note 9)	<b>454,758</b>	193,054
Less: cash and cash equivalents (Note 8)	<b>(65,061)</b>	(39,795)
Net debt	<b>389,697</b>	153,259
Contributed equity (Note 10)	<b>119,541</b>	105,861
Reserves (Note 11(a))	<b>(24,427)</b>	14,149
Retained earnings (Note 11(c))	<b>234,696</b>	151,607
Non-controlling interests	<b>6,011</b>	5,543
Total equity	<b>335,821</b>	277,160
Total capital	<b>725,518</b>	430,419

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.

As disclosed in Note 29 the Group entered into a new borrowing facility on 3rd July 2018.

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

	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
Cash and cash equivalents	<b>65,061</b>	39,795

### 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.

### 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.

# Notes to the Consolidated Financial Statements continued

## 30 June 2018

### 9. Borrowings

At 30 June 2018 carsales.com Ltd had a syndicated revolving loan facility agreement ('agreement') provided by a syndicate of financiers comprising National Australia Bank Limited (NAB), Australia and New Zealand Banking Group Limited (ANZ) and Hongkong and Shanghai Banking Corporation (HSBC) for a total of \$511 million of committed facilities.

Borrowings under this loan facility bear interest at a floating rate of BBSY Bid plus a margin, with margin determined by reference to the leverage ratio of the Gearing Group.

In addition to the existing \$265 million commitment, to fund the purchase of the remaining 50.1% in SK ENCARSALES.COM Ltd in January 2018, the Company upsized its loan facility. A new \$246 million facility was established with a 1 year tenor, and consequentially, is presented as a current liability at 30 June 2018. The Company completed a full refinance of the \$511 million of facilities on 3rd July 2018 as set out in Note 29.

In February 2018, Stratton Finance Pty Ltd entered into a \$4.2 million loan facility with the NAB. The facility is interest only for 3 years with monthly repayments of \$165,000 to commence in March 2021 with the remaining balance to be repaid in full on expiry in February 2022. The interest rate consists of NAB's business lending rate plus a customer margin and is set at the beginning of each pricing period (month).

	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
Bank loan – carsales.com Ltd	<b>450,000</b>	187,500
Bank loan – Stratton Finance Pty Ltd	<b>4,225</b>	5,545
Finance lease – RedBook Inspect Pty Ltd	<b>767</b>	508
	<b>454,992</b>	193,553
Less: Unamortised borrowing costs	<b>(234)</b>	(499)
	<b>454,758</b>	193,054
Comprising:		
Current borrowings	<b>246,024</b>	1,755
Non-current borrowings	<b>208,734</b>	191,299
	<b>454,758</b>	193,054

### Finance income

	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
Finance income	<b>395</b>	640

### Finance cost

	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
Interest and finance charges paid/payable on financial liabilities	<b>(10,620)</b>	(7,517)
Unwinding of discount on put options liabilities	<b>(341)</b>	–
Changes in fair value of put option liabilities and contingent consideration	<b>4,019</b>	–
	<b>(6,942)</b>	(7,517)

### Recognition and measurement

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.

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. Cash and cash equivalents draw interest at variable interest rates, while the interest on the overdraft facility was 8.8% (2017: 8.8%). As at reporting date, the Group had \$454,225,000 (2017: \$193,045,000) variable rate borrowings at a weighted average interest rate of 3.3% (2017: 3.0%). carsales.com Ltd has a Board-approved treasury policy and treasury strategy for the management of interest rate risk. The Company did not hedge against interest rate risk in the FY18 or FY17 financial year. The Board keeps the decision to actively hedge interest rate risk under regular review. Any derivative contracts will be entered into solely for interest rate risk and currency 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:

	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
<b>Floating rate</b>		
– Expiring within one year	<b>3,400</b>	3,400
– Expiring within one to five years	<b>61,000</b>	77,500
	<b>64,400</b>	80,900

### Liquidity risk

#### 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.

# Notes to the Consolidated Financial Statements continued

30 June 2018

## 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 2018</b>					
<b>Non-derivatives</b>					
Non-interest bearing payables	50,580	-	278	50,858	50,858
Variable rate borrowings	250,343	206,436	4,227	461,006	454,225
Fixed rate borrowings	25	270	270	565	533
<b>Total non-derivatives</b>	<b>300,948</b>	<b>206,706</b>	<b>4,775</b>	<b>512,429</b>	<b>505,616</b>
<b>Derivatives</b>					
Other financial liabilities	1,300	-	20,349	21,649	21,649
<b>Total derivatives</b>	<b>1,300</b>	<b>-</b>	<b>20,349</b>	<b>21,649</b>	<b>21,649</b>
<b>Group – at 30 June 2017</b>					
<b>Non-derivatives</b>					
Non-interest bearing payables	42,002	-	-	42,002	42,002
Variable rate borrowings	1,755	1,741	193,714	197,210	192,546
Fixed rate borrowings	2	262	262	526	508
<b>Total non-derivatives</b>	<b>43,759</b>	<b>2,003</b>	<b>193,976</b>	<b>239,738</b>	<b>235,056</b>
<b>Derivatives</b>					
Other financial liabilities	-	-	-	-	-
<b>Total derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 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.

### Liquidity risk

	Carrying amount \$'000	Interest rate risk			
		-100 bps		+100 bps	
		Profit \$'000	Other equity \$'000	Profit \$'000	Other equity \$'000
<b>At 30 June 2018</b>					
<b>Financial assets</b>					
Cash and cash equivalents	65,061	(471)	(471)	471	471
<b>Financial liabilities</b>					
Borrowings	(454,225)	3,248	3,248	(3,248)	(3,248)
<b>Total increase/(decrease)</b>		<b>2,777</b>	<b>2,777</b>	<b>(2,777)</b>	<b>(2,777)</b>

	Carrying amount \$'000	Interest rate risk			
		-100 bps		+100 bps	
		Profit \$'000	Other equity \$'000	Profit \$'000	Other equity \$'000
<b>At 30 June 2017</b>					
<b>Financial assets</b>					
Cash and cash equivalents	39,795	(325)	(325)	325	325
<b>Financial liabilities</b>					
Borrowings	(193,045)	2,097	2,097	(2,097)	(2,097)
<b>Total increase/(decrease)</b>		<b>1,772</b>	<b>1,772</b>	<b>(1,772)</b>	<b>(1,772)</b>

## 10. Contributed equity

### (a) Share capital

	Notes	2018 Shares	2017 Shares	2018 \$'000	2017 \$'000
Ordinary shares					
Fully paid	10(b)	<b>242,982,207</b>	241,785,292	<b>119,541</b>	105,861
		<b>242,982,207</b>	241,785,292	<b>119,541</b>	105,861

### 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 2016	Opening balance	241,123,298		99,026
September 2016	Exercise of employee options	47,557	\$4.69–\$5.93	237
October 2016	Exercise of employee performance rights	30,200	\$0.00	–
October 2016	Dividend Reinvestment Plan	206,250	\$11.92	2,459
November 2016	Exercise of employee options	6,071	\$9.10	55
February 2017	Exercise of employee options	11,279	\$5.93–\$9.10	84
March 2017	Exercise of employee options	2,625	\$5.93–\$9.10	21
April 2017	Dividend Reinvestment Plan	349,178	\$11.20	3,909
May 2017	Exercise of employee options	4,862	\$5.93–\$9.10	41
June 2017	Exercise of employee options	3,972	\$5.93–\$9.10	29
30 June 2017	Balance	241,785,292		105,861

Date	Details	Number of shares	Issue price	\$'000
1 July 2017	Opening balance	<b>241,785,292</b>		<b>105,861</b>
August 2017	Exercise of employee options	<b>2,237</b>	<b>\$9.10</b>	<b>20</b>
August 2017	Exercise of employee performance rights	<b>35,691</b>	<b>\$ 0.00</b>	<b>–</b>
September 2017	Exercise of employee options	<b>200,368</b>	<b>\$5.93–\$9.10</b>	<b>1,205</b>
October 2017	Dividend Reinvestment Plan	<b>468,702</b>	<b>\$12.97</b>	<b>6,081</b>
October 2017	Exercise of employee options	<b>1,433</b>	<b>\$9.10–\$10.71</b>	<b>15</b>
October 2017	Exercise of employee performance rights	<b>11,416</b>	<b>\$ 0.00</b>	<b>–</b>
November 2017	Exercise of employee options	<b>7,873</b>	<b>\$9.10–\$10.71</b>	<b>83</b>
December 2017	Exercise of employee options	<b>3,835</b>	<b>\$ 9.10</b>	<b>35</b>
February 2018	Exercise of employee options	<b>5,565</b>	<b>\$ 10.71</b>	<b>60</b>
March 2018	Exercise of employee options	<b>9,339</b>	<b>\$9.10–\$10.71</b>	<b>88</b>
April 2018	Dividend Reinvestment Plan	<b>438,169</b>	<b>\$13.63</b>	<b>5,976</b>
June 2018	Exercise of employee options	<b>12,287</b>	<b>\$9.10–\$10.71</b>	<b>117</b>
30 June 2018	Balance	<b>242,982,207</b>		<b>119,541</b>

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 25.

# Notes to the Consolidated Financial Statements continued

## 30 June 2018

### 11. Reserves and retained earnings

#### (a) Reserves

	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
Share-based payment reserve	<b>26,004</b>	22,778
Foreign currency translation reserve	<b>(12,820)</b>	(8,473)
Recycled share of remeasurement of net defined benefit liability of associates	–	(185)
Defined benefit scheme reserve	<b>(35)</b>	–
Available-for-sale asset revaluation reserve	<b>(686)</b>	29
Non-controlling interests acquisition reserve	<b>(36,890)</b>	–
	<b>(24,427)</b>	14,149

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

Balance 1 July	<b>22,778</b>	23,157
Option expense	<b>2,026</b>	(255)
Tax on Employee Share Trust charged to equity	<b>1,200</b>	(124)
Balance 30 June	<b>26,004</b>	22,778

The share-based payments reserve is used to recognise the fair value of options and performance rights issued and vested.

#### (ii) Foreign currency translation reserve

Balance 1 July	<b>(8,473)</b>	38
Reclassification of exchange differences on step acquisition of associate	<b>(14,551)</b>	–
Currency translation differences arising during the year	<b>10,204</b>	(8,511)
Balance 30 June	<b>(12,820)</b>	(8,473)

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	<b>(185)</b>	(333)
Share of remeasurement of net defined benefit liability of associates	<b>185</b>	148
Balance 30 June	–	(185)

#### (iv) Defined benefit scheme reserve

Balance 1 July	–	–
Actuarial gains /(losses) – other comprehensive income	<b>(35)</b>	–
Balance 30 June	<b>(35)</b>	–

#### (v) Available-for-sale asset revaluation reserve

Balance 1 July	<b>29</b>	–
Changes in the fair value of available-for-sale financial assets	<b>(715)</b>	29
Balance 30 June	<b>(686)</b>	29

#### (vi) Non-controlling interests acquisition reserve

Balance 1 July	–	–
Transactions with non-controlling interests	<b>(12,863)</b>	–
Recognition of put option reserve	<b>(24,027)</b>	–
Balance 30 June	<b>(36,890)</b>	–

## (b) Other reserves

### Transactions with non-controlling interests

On 1 August 2017 carsales.com Ltd acquired the remaining 50.0% stake of Automotive Exchange Pty Ltd for a consideration of \$11.0 million giving carsales 100% control and ownership of Automotive Exchange Pty Ltd.

On 21 August 2017 carsales.com Ltd acquired an additional 25.0% stake of tyresales Pty Ltd for a consideration of \$1.5 million giving carsales 75% control and ownership of tyresales Pty Ltd.

On 14 December 2017 carsales.com Ltd acquired the remaining 35% stake of carsales Mexico SAPI de CV ('soloautos') for a consideration of \$1.7 million giving carsales 100% control and ownership of soloautos.

On 19 January 2018 carsales.com Ltd acquired the remaining 50.1% stake of SK ENCARSALES.COM Ltd for a consideration of \$240.8 million giving carsales 100% control and ownership of SK ENCARSALES.COM Ltd.

### Recognition of put option reserve

The Group has put options over its non-controlling interests.

The amount that may become payable under the option on exercise is initially recognised at the present value of the redemption amount within other financial liabilities with a corresponding charge directly to equity. The liability is subsequently accreted through finance charges up to the redemption amount that is payable at the date at which the option first becomes exercisable – Note 9.

## (c) Retained earnings

Movements in retained earnings were as follows:

	2018 \$'000	2017 \$'000
Balance 1 July	151,607	134,302
Net profit for the year	184,843	109,479
Dividends	(101,754)	(92,174)
<b>Balance 30 June</b>	<b>234,696</b>	<b>151,607</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

	2018 \$'000	2017 \$'000
Final fully franked cash dividend for the year ended 30 June 2017 of 21.5 cents (2016: 19.5 cents per fully paid ordinary share plus a special dividend of 1.4 cents) per fully paid ordinary share paid on 19 October 2017 (2016: 17 October 2016).	45,953	44,569
Final fully franked ordinary dividend for the year ended 30 June 2017 of 21.5 cents (2016: 19.5 cents) – satisfied through the issuance of shares under the Dividend Reinvestment Plan.	6,082	2,459
	<b>52,035</b>	<b>47,028</b>
Interim fully franked cash dividend for the year ended 30 June 2018 of 20.5 cents (2017: 18.7 cents) per fully paid share paid on 17 April 2018 (2017: 20 April 2017)	43,744	41,237
Interim fully franked ordinary dividend for the year ended 30 June 2018 of 20.5 cents (2017: 18.7 cents) per share – satisfied through issuance of shares under the Dividend Reinvestment Plan.	5,975	3,909
	<b>49,719</b>	<b>45,146</b>
<b>Total dividends paid</b>	<b>101,754</b>	<b>92,174</b>

# Notes to the Consolidated Financial Statements continued

## 30 June 2018

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

	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
In addition to the above dividends, since year end, the Directors have recommended the payment of a final dividend of 23.7 cents per fully paid ordinary share (2017: final dividend 21.5 cents). The aggregate amount of the declared dividend expected to be paid on 10 October 2018 out of retained earnings at 30 June 2018, but not recognised as a liability at year end, is	<b>57,683</b>	51,984

### (c) Franked dividends

	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
Franking credits available for subsequent financial years based on a tax rate of 30.0% (2017: 30.0%)	<b>41,541</b>	45,860

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 2018 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 25 September 2018. The last date for shareholders to nominate their participation in the DRP is 5:00pm (AEST) on 26 September 2018. 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.

## 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

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 South Korean Won (KRW), the Mexican Peso (MXP), the Chilean Peso (CLP) and Argentine Peso (ARS).

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 net 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.

The Company entered into AUD:KRW Non-Deliverable Cross Currency Swaps on 4th July 2018 as set out in Note 29.

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:

		<b>2018</b>	2017	<b>2018</b>	2017
		<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
Impact on profit:		<b>-5%</b>	-5%	<b>5%</b>	5%
AUD to KRW	(+5% to -5%)	<b>355.4</b>	390.7	<b>(355.4)</b>	(390.7)
AUD to BRL	(+5% to -5%)	<b>172.8</b>	144.2	<b>(172.8)</b>	(144.2)
AUD to MXP	(+5% to -5%)	<b>(59.9)</b>	(81.3)	<b>59.9</b>	81.3
AUD to CLP	(+5% to -5%)	<b>55.9</b>	34.8	<b>(55.9)</b>	(34.8)
AUD to ARS	(+5% to -5%)	<b>(89.5)</b>	(29.5)	<b>89.5</b>	29.5
Net Movement		<b>434.7</b>	458.9	<b>(434.7)</b>	(458.9)
		<b>2018</b>	2017	<b>2018</b>	2017
		<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
Impact on equity:		<b>-5%</b>	-5%	<b>5%</b>	5%
AUD to KRW	(+5% to -5%)	<b>21,300</b>	6,893	<b>(21,300)</b>	(6,893)
AUD to BRL	(+5% to -5%)	<b>2,800</b>	3,032	<b>(2,800)</b>	(3,032)
AUD to MXP	(+5% to -5%)	<b>610</b>	284	<b>(610)</b>	(284)
AUD to CLP	(+5% to -5%)	<b>1,069</b>	1,037	<b>(1,069)</b>	(1,037)
AUD to ARS	(+5% to -5%)	<b>222</b>	209	<b>(222)</b>	(209)
Net Movement		<b>26,001</b>	11,455	<b>(26,001)</b>	(11,455)

### (ii) Price risk

The Group's exposure to equity securities price risk arises from the 13.1% investment in iCar Asia Limited held by the Group and classified in the balance sheet as an available-for-sale financial asset (see Note 20(d)). Changes in the fair value are recognised directly in other comprehensive income.

A movement in the valuation of this asset by 5% would have an impact of \$0.6 million to the profit result.

Other than the investment in iCar Asia Limited, the Group is not exposed to significant price equities risk.

# Notes to the Consolidated Financial Statements continued

## 30 June 2018

### (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.

### (e) Fair value estimation

Financial assets and liabilities that are carried at fair value are measured by the following fair value measurement hierarchy:

- i. **Level 1:** the fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period;
- ii. **Level 2:** the fair value of financial instruments that are not traded in an active market is determined using valuation techniques that maximise the use of observable market data and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2; and
- iii. **Level 3:** if one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Financial asset / liability	Fair value approach	Level	2018	2017
Quoted equity instrument	Measured at fair value through OCI	1	<b>11,770</b>	13,301
Unquoted equity instrument	Measured at fair value through OCI	3	<b>8,027</b>	–
Derivative financial liabilities	Measured at fair value through profit or loss	3	<b>21,649</b>	–

#### Level 1

- This balance represents the available-for-sale investment in iCar Asia Limited which is listed on the ASX and therefore has a readily determinable market value.

#### Level 3

- This balance represents the following:
  - the value of carsales non-listed available for sale equity investments (\$8.0 million), which primarily comprises the investment in PromisePay Pte Ltd (\$7.3 million). The carrying value of these investments reflects the valuation implied by capital raising completed in the last 12 months; and
  - the value of put options recognised at fair value (\$21.6 million). Refer Note 18 for further information.

## OTHER ASSETS AND LIABILITIES

### 14. Trade and other receivables

	Impaired receivables 2018 \$'000	Not impaired receivables 2018 \$'000	Total receivables 2018 \$'000	Provision 2018 \$'000	Carrying value 2018 \$'000	Carrying value 2017 \$'000
Current	143	33,784	33,927	143	33,784	36,916
1-3 months	700	5,450	6,150	700	5,450	2,223
Over 3 months	2,008	13,855	15,863	2,008	13,855	755
<b>Trade receivables</b>	<b>2,851</b>	<b>53,089</b>	<b>55,940</b>	<b>2,851</b>	<b>53,089</b>	39,894
Accrued income					5,084	3,312
Other receivables					2,161	2,033
Prepayments					7,003	3,165
<b>Trade and other receivables</b>					<b>67,337</b>	48,404
<b>Other receivables (non-current)</b>					<b>5,859</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.

The aging of receivables in the current financial year is skewed towards older receivables than the comparative period. This has been driven by the ERP system migration to netsuite and an on-going program of work to allocate customer receipts against invoices migrated from the previous system, and consolidated customer payments that cover a number of separate customer accounts. As a result the over 3 months balance is conservatively stated as there are likely to be customer receipts presented as current offsetting with aged receivable balances.

Over 50% of the receivables balance aged over 3 months is made up of large commercial customer groups with significant ongoing relationships, and therefore the Group is confident with the recoverability of these amounts. The aging as at year end is presented on the most conservative basis, which resulted in a materially larger provision for doubtful debts. Based on the historic debt write offs, the Group does not anticipate a significant increase in unprovided bad debt risk.

#### (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.

# Notes to the Consolidated Financial Statements continued

## 30 June 2018

### (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.

Other non-current receivables represent deposits paid in relation to long-term leases by SK ENCARSALES.COM Ltd.

### (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.

## 15. Property, plant and equipment

	Plant and equipment \$'000	Motor vehicles \$'000	Leasehold improvements \$'000	Total \$'000
<b>At 30 June 2018</b>				
Cost	12,549	1,115	15,975	29,639
Accumulated depreciation	(8,828)	(404)	(6,498)	(15,730)
<b>Net book amount</b>	<b>3,721</b>	<b>711</b>	<b>9,477</b>	<b>13,909</b>
<b>At 30 June 2017</b>				
Cost	8,076	705	8,763	17,544
Accumulated depreciation	(6,126)	(213)	(3,916)	(10,255)
<b>Net book amount</b>	<b>1,950</b>	<b>492</b>	<b>4,847</b>	<b>7,289</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.

### Recognition and measurement

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* \$'000	Total \$'000
<b>At 1 July 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
<b>Year ended 30 June 2017</b>					
Opening net book amount	169,757	12,855	8,385	572	191,569
Acquisition of subsidiaries	4,686	707	1,140	–	6,533
Additions	–	9,908	–	71	9,979
Disposals	–	–	–	–	–
Amortisation charge	–	(6,104)	(1,359)	(286)	(7,749)
Reclassifications of intangible assets**	(3,329)	–	4,340	129	1,140
Exchange differences	(1,433)	(47)	(25)	(13)	(1,518)
Closing net book amount	169,681	17,319	12,481	473	199,954
<b>At 30 June 2017</b>					
Cost	169,681	37,899	14,709	4,775	227,064
Accumulated amortisation and impairment	–	(20,580)	(2,228)	(4,302)	(27,110)
Net book amount	169,681	17,319	12,481	473	199,954
<b>Year ended 30 June 2018</b>					
Opening net book amount	<b>169,681</b>	<b>17,319</b>	<b>12,481</b>	<b>473</b>	<b>199,954</b>
Acquisition of subsidiaries	<b>361,651</b>	<b>2,818</b>	<b>77,861</b>	<b>174</b>	<b>442,504</b>
Additions	–	<b>18,165</b>	–	<b>86</b>	<b>18,251</b>
Disposals	–	<b>(14)</b>	–	–	<b>(14)</b>
Amortisation charge	–	<b>(9,263)</b>	<b>(5,115)</b>	<b>(180)</b>	<b>(14,558)</b>
Reclassifications of intangible assets***	–	<b>119</b>	–	<b>(119)</b>	–
Exchange differences	<b>10,666</b>	<b>(169)</b>	<b>2,325</b>	<b>(4)</b>	<b>12,818</b>
Closing net book amount	<b>541,998</b>	<b>28,975</b>	<b>87,552</b>	<b>430</b>	<b>658,955</b>
<b>At 30 June 2018</b>					
Cost	<b>541,998</b>	<b>55,625</b>	<b>94,925</b>	<b>4,888</b>	<b>697,436</b>
Accumulated amortisation and impairment	–	<b>(26,650)</b>	<b>(7,373)</b>	<b>(4,458)</b>	<b>(38,481)</b>
<b>Net book amount</b>	<b>541,998</b>	<b>28,975</b>	<b>87,552</b>	<b>430</b>	<b>658,955</b>

\* Other intangible assets include database, domain names and other.

\*\* 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.

\*\*\* Reclassifications include minor adjustments for other intangible assets.

### 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.

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### (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 amortisation 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 12 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 7–12 years

### (a) Cash generating units

Goodwill is allocated to the Group's cash-generating units (CGUs) and tested annually to determine whether they have suffered any impairment. 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).

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

	<b>Total \$'000</b>
<b>2018</b>	
Online Advertising Services	<b>73,876</b>
Data, Research and Services	<b>14,541</b>
Stratton Finance Group	<b>58,698</b>
	<b>147,115</b>
Mexico	<b>5,018</b>
Chile	<b>18,224</b>
Argentina	<b>1,745</b>
Latin America	<b>24,987</b>
South Korea	<b>369,896</b>
Asia	<b>369,896</b>
	<b>541,998</b>
	Total
<b>2017</b>	<b>\$'000</b>
Online Advertising Services	72,076
Data, Research and Services	14,541
Stratton Finance Group	58,698
	145,315
Mexico	4,112
Chile	17,324
Argentina	2,930
International	24,366
	169,681

## (b) Impairment testing and key assumptions

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, which includes carsales' equity held associate investments. 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.

### Key assumptions

Both value in use and fair value less cost to sell valuation methods have been employed in determining the recoverable amounts of CGUs. Both methods are predicated on cash flow projections which necessitates the adoption of assumptions and estimates. The key assumptions and estimates used in management's calculations primarily relate to:

- Five or ten year cash flow forecasts sourced from internal budgets and long-term forecasts;
- Terminal value growth rates applied to the period beyond the five to ten year cash flow forecasts; and
- Pre-tax discount rates, used to discount the cash flows to present value.

'Best estimates' have been used in formulating the assumptions and estimates. However, changes in any of the key assumptions, including increases in discount rates or changes in operating conditions may cause the recoverable amount of CGUs to fall below their carrying amounts, resulting in an impairment loss being recognised.

The key assumptions for each CGU are detailed as follows:

CGU	Valuation method	Years of cash flow projection	2018	2017	2018	2017
			Terminal growth rate		Pre-tax discount rate	
Online Advertising Services	Value in use	5	<b>2.5%</b>	2.5%	<b>13.8%</b>	13.8%
Data, Research and Services	Value in use	5	<b>2.5%</b>	2.5%	<b>13.8%</b>	13.8%
Stratton Finance Group	Value in use	5	<b>3.0%</b>	3.0%	<b>14.0%</b>	14.0%
Chile	Value in use	5	<b>3.0%</b>	3.0%	<b>14.1%</b>	13.8%
Mexico	Fair value less costs to sell	10	<b>3.0%</b>	3.0%	<b>15.9%</b>	15.9%

Given the recent nature of the Demotores acquisition in Argentina and the SK ENCARSALAS.COM Ltd (SK Encar) acquisition in South Korea, the recoverable amounts for Argentina and South Korea have been based on fair values less costs to sell supported with reference to the transaction price.

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

As part of management's impairment review for the period ended 30 June 2018, the carrying value of the Stratton Finance Group CGU was compared with a value in use discounted cash flow model. The model indicated no impairment is required at 30 June 2018.

The model's cash flow projections are based on the Board approved budget for the next 5 years.

The valuation outcome is predicated on Stratton's ability to grow its core finance revenue at levels slightly above those achieved in FY18 and at improved margins. This assumption could be impacted by two key external factors going into FY19:

- The ASIC (Flexible Credit Cost Arrangements) legislative changes, which will come into operation in November 2018; and
- The uncertainty of any potential impacts on asset backed lending markets associated with the Financial Services Royal Commission.

Given it is too premature to assess the impact of these items, management has not factored in any potential impacts from these two external factors in its forecast. Management anticipates that over the next 6 months greater certainty on the potential impacts will arise as any regulatory changes are announced and/or come into force.

While the estimated recoverable amount of the Stratton Finance Group CGU was greater than its carrying value, there is limited head room and any adverse change in certain key assumptions would result in an impairment to goodwill to be recognised. The calculations are sensitive to changes in the key assumptions as follows:

- an increase in the post tax discount rate of 1% would result in an impairment of \$6.0m;
- a decrease in the terminal growth rate of 1% would result in an impairment of \$7.1m;
- a decrease in revenue growth rates of 1% would result in an impairment of \$7.9m; and
- an increase in operating expense growth rates of 1% would result in an impairment of \$9.5m.

# Notes to the Consolidated Financial Statements continued

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## 17. Payables and provisions

	2018 \$'000	2017 \$'000
<b>Trade and other payables</b>		
Trade payables	22,225	18,133
Accrued expenses	22,120	20,739
Other payables	6,235	3,130
<b>Total payables</b>	<b>50,580</b>	<b>42,002</b>
Other payables – non-current	278	–
<b>Provisions</b>		
Employee benefits – current	7,598	6,040
Employee benefits – non-current	1,129	1,318
<b>Total employee benefits</b>	<b>8,727</b>	<b>7,358</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 based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments as well as other metrics set out in the Remuneration Report. The Company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

## 18. Other financial liabilities

	2018 \$'000	2017 \$'000
Other liabilities – current	1,300	–
Put options – non-current	20,349	–
	<b>21,649</b>	–

During the year ended 30 June 2018, the Group entered into a number of put and call option contracts in relation to the remaining shares held by non-controlling interests in subsidiaries acquired. The most significant put option relates to Appraisal Solutions Pty Ltd.

Where risks and rewards of ownership of the non-controlling interests under these put option contracts do not transfer to the Group the estimated future liability for each put option contract is recognised in the balance sheet, with the initial recognition being through the transactions with non-controlling interests reserve and subsequent changes to fair value recognised as finance income/expense. The put options valuation are based on contractual multiples of future earnings of the acquired subsidiaries for a defined period and are valued at 30 June 2018 based on forecasts of earnings for each acquired subsidiary. These liabilities are discounted to present value using a discount rate of 4.0%, with the unwind of the discount being recognised as a finance expense.

## 19. 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 eighteen months. The Company has entered into a five-year extension on the lease which will commence from October 2019. The Group also leases various motor cars and printers under non-cancellable operating leases.

	2018 \$'000	2017 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	8,877	6,223
Later than one year but not later than five years	28,037	11,934
Later than five years	6,877	1,044
	<b>43,791</b>	19,201

### Bank guarantee facility

Guarantees in respect of bank facilities drawn down but not included in the accounts of the Group are \$3.69 million (2017: \$3.65 million).

## GROUP STRUCTURE

### 20. Interests in other entities

#### (a) Material subsidiaries

The Group's principal subsidiaries at 30 June 2018 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
		2018	2017	2018	2017	
		%	%	%	%	
Webpointclassifieds 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	75.0	50.0	25.0	50.0	(3)
Auto Exchange Holdings Pty Ltd	Australia	100.0	100.0	–	–	(4)
Automotive Exchange Pty Ltd	Australia	100.0	50.0	–	50.0	(1)
carsales.com Investments Pty Ltd	Australia	100.0	100.0	–	–	(4)
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)
Carconnect 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 Franchise Pty Ltd	Australia	50.1	50.1	49.9	49.9	(6)
Stratton Marine And Outdoor Finance Pty Ltd	Australia	43.8	43.8	56.2	56.2	(6)
RedBook Inspect Pty Ltd	Australia	50.1	50.1	49.9	49.9	(7)
carsales Latam Pty Ltd	Australia	100.0	100.0	–	–	(4)
carsales Mexico SAPI de CV	Mexico	100.0	65.0	–	35.0	(1)
carsales Chile SpA	Chile	100.0	100.0	–	–	(4)
Chileautos SpA	Chile	83.3	83.3	16.7	16.7	(1)
carsales Foundation Pty Ltd	Australia	100.0	100.0	–	–	(8)
carsales Argentina Pty Ltd	Australia	100.0	100.0	–	–	(4)
Demotores Holdings LLC	United States of America	100.0	100.0	–	–	(4)
Demotores Chile SpA	Chile	100.0	100.0	–	–	(1)
Demotores S.A.	Argentina	100.0	100.0	–	–	(1)
Demotores Colombia S.A.S.	Colombia	100.0	100.0	–	–	(1)
Automotive Online Publishing Solutions S.A de C.V.	Mexico	60.0	–	40.0	–	(1)
SK ENCARSALES.COM Ltd**	South Korea	100.0	–	–	–	(1)
AS1 Holdings Pty Ltd	Australia	100.0	–	–	–	(4)
Appraisal Solutions Australia Pty Ltd	Australia	60.0	–	40.0	–	(7)

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

\*\*On 19 January 2018 carsales.com Ltd acquired the remaining 50.1% stake of SK ENCARSALES.COM Ltd giving carsales 100% control and ownership.

- (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 21).

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, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

### (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	Stratton Group \$'000	RedBook Inspect \$'000	chileautos \$'000	Other \$'000	
<b>30 June 2018</b>						
<b>Summarised balance sheet</b>						
Current assets	3,023	12,497	3,077	3,127	1,348	
Current liabilities	(2,514)	(15,879)	(1,471)	(433)	(156)	
Non-current assets	465	21,517	1,175	241	4,434	
Non-current liabilities	–	(4,448)	(509)	–	–	
<b>Net assets</b>	<b>974</b>	<b>13,687</b>	<b>2,272</b>	<b>2,935</b>	<b>5,626</b>	
<b>Accumulated NCI</b>	<b>243</b>	<b>3,026</b>	<b>1,133</b>	<b>487</b>	<b>1,121</b>	
	tyresales \$'000	Stratton Group \$'000	RedBook Inspect \$'000	chileautos \$'000	Auto Exchange \$'000	soloautos \$'000
<b>30 June 2017</b>						
<b>Summarised balance sheet</b>						
Current assets	3,113	12,724	1,892	1,922	4,064	1,201
Current liabilities	(3,007)	(18,546)	(832)	(365)	(1,525)	(647)
Non-current assets	175	20,737	776	117	163	4,379
Non-current liabilities	–	(3,894)	(506)	–	–	(17)
<b>Net assets</b>	<b>281</b>	<b>11,021</b>	<b>1,330</b>	<b>1,674</b>	<b>2,702</b>	<b>4,916</b>
<b>Accumulated NCI</b>	<b>140</b>	<b>1,994</b>	<b>663</b>	<b>288</b>	<b>1,351</b>	<b>1,107</b>

# Notes to the Consolidated Financial Statements continued

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30 June 2018	tyresales \$'000	Stratton Group \$'000	RedBook Inspect \$'000	chileautos \$'000	Other \$'000	
<b>Summarised statement of comprehensive income</b>						
Profit/(loss) for the period	694	4,676	2,112	1,173	(119)	
Profit/(loss) allocated to NCI	193	2,041	1,054	197	(48)	
Dividends paid to NCI	-	1,009	584	-	-	
Other comprehensive income	-	-	-	2	45	
30 June 2017	tyresales \$'000	Stratton Group \$'000	RedBook Inspect \$'000	chileautos \$'000	Auto Exchange \$'000	soloautos \$'000
<b>Summarised statement of comprehensive income</b>						
Profit/(loss) for the period	(4)	4,674	1,339	881	2,581	(2,627)
Profit/(loss) allocated to NCI	(2)	2,348	668	150	1,290	(919)
Dividends paid to NCI	-	1,008	200	-	1,050	-
Other comprehensive income	-	-	-	(54)	-	(10)
30 June 2018	tyresales \$'000	Stratton Group \$'000	RedBook Inspect \$'000	chileautos \$'000	Other \$'000	
<b>Summarised cash flows</b>						
Cash flows from operating activities	(373)	1,940	982	477	(114)	
Cash flows from investing activities	14	(482)	(356)	-	(1,472)	
Cash flows from financing activities	-	(3,484)	(597)	-	2,745	
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(359)</b>	<b>(2,026)</b>	<b>29</b>	<b>477</b>	<b>1,159</b>	
30 June 2017	tyresales \$'000	Stratton Group \$'000	RedBook Inspect \$'000	chileautos \$'000	Auto Exchange \$'000	soloautos \$'000
<b>Summarised cash flows</b>						
Cash flows from operating activities	1,127	6,265	893	576	3,294	(2,012)
Cash flows from investing activities	(51)	(1,377)	(760)	-	(123)	(35)
Cash flows from financing activities	9	(3,749)	(74)	-	(2,100)	-
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,085</b>	<b>1,139</b>	<b>59</b>	<b>576</b>	<b>1,071</b>	<b>(2,047)</b>

### (c) Interests in associates

Name of entity	Place of business/ country of incorporation	% of ownership interest		Nature of relationship	Measurement method
		2018 %	2017 %		
Webmotors S.A.	Brazil	30.0	30.0	Associate	Equity method
iCar Asia Limited	Australia	–	–	Associate	Equity method
SK ENCARSALES.COM Ltd <sup>(1)</sup>	South Korea	–	49.9	Associate	Equity method
RateSetter Australia Pty Ltd <sup>(2)</sup>	Australia	18.6	20.5	Associate	Equity method
PromisePay Pte Ltd <sup>(3)</sup>	Singapore	–	10.1	Associate	Equity method
<b>Total equity accounted investments</b>					

Name of entity	Quoted fair value		Carrying amount		Share of Profit	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Webmotors S.A.	–	–	58,810	63,678	3,628	3,028
iCar Asia Limited	–	–	–	–	–	(1,241)
SK ENCARSALES.COM Ltd <sup>(1)</sup>	–	–	–	144,759	3,489	8,204
RateSetter Australia Pty Ltd <sup>(2)</sup>	–	–	9,340	9,520	(1,431)	(1,019)
PromisePay Pte Ltd <sup>(3)</sup>	–	–	–	6,515	(543)	(474)
<b>Total equity accounted investments</b>	–	–	<b>68,150</b>	<b>224,472</b>	<b>5,143</b>	<b>8,498</b>

(1) On 19 January 2018, the SK ENCARSALES.COM Ltd investment was transferred from an associate to a consolidated subsidiary as a result of the 100% acquisition of this business.

(2) RateSetter is equity accounted for as carsales exercises significant influence over this entity through the right to appoint a director to the Board.

(3) On 9 January 2018, carsales' Non-Executive Director stepped down from the Board of PromisePay. As a result the investment in PromisePay is accounted for as an available-for-sale financial asset from this date.

### (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 receivable from associates are recognised as 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

	2018 \$'000	2017 \$'000
<b>Contingent liabilities – associates</b>		
Contingent liabilities relating to liabilities of the associate for which the Company is severally liable	453	482



#### (iv) Webmotors

Under accounting standards, there is no requirement to annually test for impairment in relation to carsales' equity held associate investments. Instead the Company is required to consider whether there are any triggers for impairment in relation to these investments. In light of the decline of the economy in Brazil in FY17, management has performed an impairment assessment with respect to the carrying value of the equity accounted investment in Webmotors. This review was performed using a value in use cash flow model.

This model was prepared on the same basis as the impairment testing model used for goodwill and incorporates cash flow projections based on the Board approved budget for the next 5 years. A growth rate beyond the budget 5 year period of 4.5% and a pre-tax discount rate of 21.6% has been used in the model.

Over the last financial year the Brazilian economy has shown sustained signs of recovery which has manifested itself in a return to GDP growth, lower interest rates and an increase in sales of new cars. This has corresponded with an improved financial performance for Webmotors with local currency revenue and EBITDA being 28% and 81% higher than their respective FY17 comparative results.

Should the Brazilian economy decline resulting in an increase in the post tax discount rate of 7%, or a reduction in the forecast compound annual EBITDA growth rate by 8% over the next 5 year forecast period, the value in use model would be approximately equal to the carrying value of the investment in Webmotors.

In light of the magnitude of the above required adjustments, management does not believe that a reasonably possible change in any of the key assumptions supporting the value in use model would lead to impairment in the carrying value of Webmotors.

#### (d) Available-for-sale financial assets

Name of Entity	Ownership interest		Carrying Amount	
	2018 %	2017 %	2018 \$'000	2017 \$'000
iCar Asia Limited	13.1	15.6	11,770	13,301
PromisePay Pte Ltd	7.3	-	7,253	-
Other equity investments	N/A	-	774	-
<b>Total available-for-sale financial assets</b>			<b>19,797</b>	<b>13,301</b>
			<b>2018</b>	<b>2017</b>
			<b>\$'000</b>	<b>\$'000</b>
At 1 July			13,301	-
Transfer from equity accounted associates			6,437	13,272
Acquisition of available-for-sale financial assets			764	-
Exchange differences recognised through other comprehensive income			10	-
(Loss)/Gain recognised through other comprehensive income			(715)	29
<b>At 30 June</b>			<b>19,797</b>	<b>13,301</b>

#### Recognition and measurement

Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories (at FVPL, loans and receivables or held-to-maturity investments) are also included in the available-for-sale category.

The financial assets are presented as non-current assets unless they mature, or management intends to dispose of them within 12 months of the end of the reporting period.

# Notes to the Consolidated Financial Statements continued

30 June 2018

## (e) Fair value adjustment and investment dilution

	2018 \$'000	2017 \$'000
Associate dilution	1,251	268
Fair value adjustment on transfer to available-for-sale financial assets	–	(7,145)
<b>Total fair value adjustment and investment dilution</b>	<b>1,251</b>	<b>(6,877)</b>

### Associate dilution

As a result of a change in the Company's holding of investments in associates, there is a gain on associate dilution of \$1,251,000 (2017: \$268,000).

## 21. Business combinations and disposals

### (a) SK ENCARSALES.COM Ltd (SK Encar) acquisition

On 22 December 2017 carsales.com Ltd signed a purchase agreement to purchase the remaining 50.1% stake of South Korea's SK ENCARSALES.COM Ltd (SK Encar), giving carsales 100% control and ownership of South Korea's number one online auto classifieds business. The purchase consideration for the remaining 50.1% of KRW205 billion (A\$240.8 million) was paid on 19 January 2018 and funded with new short-term debt facilities entered into with our existing bank syndicate. An additional consideration of A\$2.6 million for working capital was paid in April 2018.

Pursuant to AASB3, the transaction is treated as a step-acquisition which occurs when the buyer in a business combination has a previously held equity interest in a target and acquires an additional interest in the target that results in the buyer obtaining control. In a step acquisition scenario, the acquirer is required to revalue its existing stake to 'fair value' and recognise a gain for the excess over the previously held equity interest.

The details of acquisition are below:

#### (i) Purchase consideration

	\$'000
Purchase consideration – cash outflow	240,794
Working capital adjustment	2,634
Purchase consideration for the 50.1%	243,428
Fair value of pre-existing 49.9% interest	202,755
<b>Total purchase consideration</b>	<b>446,183</b>

#### (ii) Net gain on revaluation

In accordance with the accounting policy above, the Group has re-measured its previously held equity interest in SK ENCARSALES.COM Ltd at the acquisition date fair value immediately prior to the business combination. The Group has recognised a net gain on the step acquisition of A\$57 million, being the difference between the acquisition-date fair value of its existing 49.9% ownership in SK Encar (A\$202.8 million), the carrying value of its investment in SK Encar as an associate (A\$152.6 million) and the impact of historical foreign exchange movements and hedging losses on the investment balance (A\$6.8 million). This gain has been recognised as 'net gain on step acquisition' in the consolidated income statement.

	\$'000
Fair value of previously held interest	202,755
Less: carrying value of SK Encar investment as an associate	(152,564)
	50,191
Add: reclassification of exchange differences and hedging losses	6,828
<b>Net gain on step acquisition</b>	<b>57,019</b>

### (iii) Details on net assets and liabilities acquired

#### Initial accounting

The assets and liabilities acquired are estimated as follows:

	<b>\$'000</b>
Cash and cash equivalents	<b>30,923</b>
Trade and other receivables	<b>7,523</b>
Plant and equipment	<b>5,766</b>
Intangible assets	
Customer relationship	<b>38,205</b>
Brands	<b>39,656</b>
Computer software	<b>1,492</b>
Deferred tax assets	<b>671</b>
Trade and other payables	<b>(5,443)</b>
Special compensation payment liability	<b>(7,904)</b>
Tax liabilities	<b>(3,207)</b>
Deferred tax liabilities	<b>(17,129)</b>
Other liabilities	<b>(3,121)</b>
<b>Net identifiable assets acquired</b>	<b>87,432</b>
Add: Goodwill	<b>358,751</b>
<b>Net assets acquired</b>	<b>446,183</b>

The goodwill is attributable to SK Encar's strong position in its market, its customer database, brand presence, the high profitability of the business and synergies benefits expected to be created by this acquisition.

Goodwill is not expected to be deductible for tax purposes.

#### Acquired receivables

The fair value of trade and other receivables includes trade receivables which are expected to be collected in full.

### (iv) Revenue and profit contribution

SK Encar contributed revenue of \$26.2 million and net profit of \$4.2 million for the period from 19 January 2018 to 30 June 2018. This net profit amount includes amortisation of acquired intangibles.

If the acquisition had occurred on 1 July 2017, the contribution to consolidated revenue and consolidated profit for the Group would have been \$52.0 million and \$7.3 million respectively. Profit has been calculated based on the subsidiary results and includes the additional amortisation that would have been charges from 1 July in relation to acquired intangible assets, together with the consequential tax effects.

### (v) Acquisition-related costs

Acquisition-related costs for this acquisition amounting to \$0.5 million have been excluded from the total consideration and have been recognised as an expense in the period ended 30 June 2018, within the 'operations and administration' line item in the consolidated statement of comprehensive income.

### (vi) Purchase consideration – cash outflow

Outflow of cash to acquire subsidiary, net of cash acquired

	<b>\$'000</b>
Cash consideration	<b>243,428</b>
Less: cash acquired	<b>(30,923)</b>
Add: special compensation liability paid	<b>7,904</b>
<b>Net outflow of cash – investing activities</b>	<b>220,409</b>

# Notes to the Consolidated Financial Statements continued

## 30 June 2018

### (b) Demotores acquisition

On 24th February 2017, carsales.com Ltd acquired 100% acquisition of the Demotores Group which consists of Demotores Chile SpA, Demotores S.A, Demotores S.A.S. and Demotores Holding LLC.

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

	<b>\$'000</b>
Purchase consideration:	
Cash paid	<b>6,667</b>
Working capital adjustment	<b>(216)</b>
	<b>6,451</b>
The assets and liabilities acquired are estimated as follows:	
Cash and cash equivalents	<b>80</b>
Accounts receivable	<b>1,275</b>
Plant and equipment	<b>78</b>
Intangible assets	<b>1,847</b>
Trade and other payables	<b>(861)</b>
Deferred tax liabilities	<b>(372)</b>
<b>Net assets</b>	<b>2,047</b>
Add: Goodwill	<b>4,404</b>
<b>Net assets acquired</b>	<b>6,451</b>

#### (i) Finalisation of Demotores acquisition accounting

Given that the acquisition occurred close to the previous financial year end, the final net asset valuation and allocation of the purchase price to acquired assets was preliminary. In accordance with the Group's accounting policy, the accounting for the acquisition of Demotores Group was finalised during the current year and the preliminary step acquisition balances have been updated accordingly.

#### (ii) Working capital adjustment

A working capital adjustment of \$216,000 has been received by carsales.com Ltd from the vendor during the year ended 30 June 2018.

## 22. Related party transactions

### (a) Subsidiaries

Interests in subsidiaries are set out in Note 20.

### (b) Key Management Personnel compensation

	2018	2017
	\$	\$
Short-term employee benefits	<b>6,369,824</b>	7,193,356
Deferred short-term employee benefits	<b>349,102</b>	227,152
Post-employment benefits	<b>196,768</b>	174,590
Long-term employment benefits	<b>62,857</b>	262,603
Share-based payments	<b>1,010,675</b>	(858,250)
Other termination	-	986,107
	<b>7,989,226</b>	7,985,558

### (c) Transactions with other related parties

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

	2018	2017
	\$	\$
<i>Sales of goods and services</i>		
Sale of goods and services to related parties	<b>1,316,090</b>	1,318,262
<i>Purchases of goods and services</i>		
Purchases of goods and services from related parties	<b>1,424,114</b>	3,461,834

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:

	2018	2017
	\$	\$
<i>Current receivables (sales of goods and services)</i>		
Other related parties	<b>233,982</b>	164,996
<i>Current payables (purchases of goods and services)</i>		
Other related parties	<b>524,303</b>	923,774

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

## 30 June 2018

### 23. Deed of cross guarantee

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

Company	Financial year entered into agreement
carsales.com Ltd	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
carsales Argentina Pty Ltd	30 June 2017
Automotive Exchange Pty Ltd	30 June 2018
AS1 Holdings Pty Ltd	30 June 2018

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 statement of comprehensive income for the year ended 30 June 2018 of the Closed Group.

	2018 \$'000	2017 \$'000
<b>Consolidated statement of comprehensive income</b>		
<b>Revenue from continuing operations</b>		
Sale of goods and services	300,329	271,510
<b>Revenue from continuing operations</b>	<b>300,329</b>	271,510
<b>Expenses</b>		
Costs of sale	(3,809)	(195)
Sales and marketing expenses	(61,750)	(56,780)
Service development and maintenance	(28,415)	(20,407)
Operations and administration	(28,333)	(30,327)
<b>Earnings before interest, taxes, depreciation and amortisation</b>	<b>178,022</b>	163,801
Depreciation and amortisation expense	(9,398)	(7,251)
Finance income	1,175	992
Finance costs	(14,530)	(7,053)
Dividends received	14,761	14,109
(Loss)/gain on associates fair value adjustment and investment dilution	(1,018)	(11,656)
<b>Profit before income tax</b>	<b>169,012</b>	152,942
Income tax expense	(48,092)	(45,493)
<b>Profit from continuing operations</b>	<b>120,920</b>	107,449
<b>Total comprehensive income for the year</b>	<b>109,900</b>	107,481
Profit is attributable to:		
Owners of carsales.com Ltd	120,745	107,449
Non-controlling interests	175	–
	<b>120,920</b>	107,449

## (b) Consolidated statement of financial position

Set out below is a consolidated statement of financial position as at 30 June 2018 of the Closed Group.

Consolidated statement of finance position	2018 \$'000	2017 \$'000
<b>Current assets</b>		
Cash and cash equivalents	30,477	22,001
Trade and other receivables	53,783	41,746
<b>Total current assets</b>	<b>84,260</b>	63,747
<b>Non-current assets</b>		
Investments	541,660	307,540
Available-for-sale financial assets	19,797	13,301
Property, plant and equipment	2,925	2,885
Deferred tax assets	4,943	3,102
Intangible assets	108,096	91,830
Other receivables	22,442	14,742
<b>Total non-current assets</b>	<b>699,863</b>	433,400
<b>Total assets</b>	<b>784,123</b>	497,147
<b>Current liabilities</b>		
Trade and other payables	23,241	21,068
Borrowings	246,000	–
Other financial liabilities	1,300	–
Current tax liabilities	11,240	8,818
Provisions	5,939	4,718
Deferred revenue	1,066	6,107
<b>Total current liabilities</b>	<b>288,786</b>	40,711
<b>Non-current liabilities</b>		
Borrowings	204,000	187,000
Other financial liabilities	20,349	–
Provisions	906	989
<b>Total non-current liabilities</b>	<b>225,255</b>	187,989
<b>Total liabilities</b>	<b>514,041</b>	228,700
<b>Net assets</b>	<b>270,082</b>	268,447
<b>Equity</b>		
Contributed equity	119,541	105,861
Reserves	(9,405)	22,838
Retained earnings	159,946	139,748
<b>Total equity</b>	<b>270,082</b>	268,447

# Notes to the Consolidated Financial Statements continued

## 30 June 2018

### OTHER

#### 24. 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

	2018 \$	2017 \$
<i>PricewaterhouseCoopers firm</i>		
Audit and review of Financial Reports	<b>606,447</b>	419,850
Due diligence services	<b>94,400</b>	226,214
<b>Total remuneration for audit and other assurance services</b>	<b>700,847</b>	646,064
<i>Taxation services</i>		
Tax compliance services, including review of Company income tax returns	<b>161,671</b>	86,526
International tax consulting and tax advice on mergers and acquisitions	<b>28,056</b>	63,102
<b>Total remuneration for taxation services</b>	<b>189,727</b>	149,628
<i>Other services</i>		
Other services	<b>67,867</b>	37,850
<b>Total remuneration for other services</b>	<b>67,867</b>	37,850
<b>Total remuneration of PricewaterhouseCoopers</b>	<b>958,441</b>	833,542

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

<i>Audit and other assurance services</i>		
Audit and review of financial statements	<b>31,529</b>	33,039
<b>Total remuneration for audit and other assurance services</b>	<b>31,529</b>	33,039
<b>Total auditors' remuneration</b>	<b>989,970</b>	866,581

It is the Company's policy to employ PwC on assignments additional to their 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.

## 25. Share-based payments

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

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were \$2,025,000 (2017: (\$255,000)).

### Employee Option Plan

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

		2018								
Grant date	Expiry date	Exercise price	Balance at start of the year Number	Performance		Total exercised during the year Number	Expired or lapsed during the year Number	Other*	Balance at the end of the year Number	Vested and exercisable at end of the year Number
				Options granted during the year Number	rights granted during the year Number					
Oct 2012	Oct 2017/ Mar 2018	\$5.93	195,148	–	–	(195,148)	–	–	–	–
Oct 2013	Oct 2018	\$9.10	61,141	–	–	(28,869)	–	–	32,272	32,272
Oct 2014	Oct 2019	\$10.71	423,084	–	–	(18,920)	(376,716)	–	27,448	27,448
Oct 2014	Oct 2019	\$0.00	104,182	–	–	(11,416)	(92,766)	–	–	–
Oct 2015	Oct 2020	\$10.24	611,160	–	–	–	(44,234)	–	566,926	–
Oct 2015	Oct 2020	\$0.00	175,501	–	–	(35,691)	(18,343)	–	121,467	–
Oct 2016	Oct 2031	\$12.23	886,824	–	–	–	(20,908)	–	865,916	–
Oct 2016	Oct 2031	\$0.00	215,336	–	–	–	(3,634)	–	211,702	–
Oct 2017	Oct 2032	\$11.41	–	365,365	–	–	(691)	–	364,674	–
Oct 2017	Oct 2032	\$0.00	–	–	229,941	–	(435)	–	229,506	–
<b>Total</b>			<b>2,672,376</b>	<b>365,365</b>	<b>229,941</b>	<b>(290,044)</b>	<b>(557,727)</b>		<b>2,419,911</b>	<b>59,720</b>
<b>Weighted average exercise price</b>			<b>\$8.74</b>	<b>\$11.41</b>	<b>\$0.00</b>	<b>\$5.59</b>	<b>\$8.52</b>		<b>\$8.74</b>	<b>\$9.84</b>

		2017								
Grant date	Expiry date	Exercise price	Balance at start of the year Number	Performance		Total exercised during the year Number	Expired or lapsed during the year Number	Other*	Balance at the end of the year Number	Vested and exercisable at end of the year Number
				Options granted during the year Number	rights granted during the year Number					
Oct 2011	Oct 2016	\$4.69	36,257	–	–	(36,257)	–	–	–	–
Oct 2012	Oct 2017/ Mar 2018	\$5.93	216,720	–	–	(21,572)	–	–	195,148	195,148
Oct 2013	Oct 2018	\$9.10	374,626	–	–	(18,537)	(294,948)	–	61,141	61,141
Oct 2013	Oct 2018	\$0.00	142,001	–	–	(30,200)	(111,801)	–	–	–
Oct 2014	Oct 2019	\$10.71	638,459	–	–	–	(215,375)	–	423,084	–
Oct 2014	Oct 2019	\$0.00	219,865	–	–	–	(115,683)	–	104,182	–
Oct 2015	Oct 2020	\$10.24	862,520	–	–	–	(251,360)	–	611,160	–
Oct 2015	Oct 2020	\$0.00	269,774	–	–	–	(94,273)	–	175,501	–
Oct 2016	Oct 2031	\$12.23	–	1,377,659	–	–	(3,636)	(487,199)	886,824	–
Oct 2016	Oct 2031	\$0.00	–	–	332,612	–	(632)	(116,644)	215,336	–
<b>Total</b>			<b>2,760,222</b>	<b>1,377,659</b>	<b>332,612</b>	<b>(106,566)</b>	<b>(1,087,708)</b>	<b>(603,843)</b>	<b>2,672,376</b>	<b>256,289</b>
<b>Weighted average exercise price</b>			<b>\$7.44</b>	<b>\$12.23</b>	<b>\$0.00</b>	<b>\$4.38</b>	<b>\$7.00</b>		<b>\$8.74</b>	<b>\$6.69</b>

\*Other change reflect options and performance rights outstanding at cessation of employment.

# Notes to the Consolidated Financial Statements continued

## 30 June 2018

The estimate of the weighted average share price at the date of exercise of options exercised regularly during the year ended 30 June 2018 is estimated to be approximately \$13.96 (2017: approximately \$11.56).

The weighted average remaining contractual life of share options outstanding at the end of the period was 10.65 years (2017: 8.58 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 66.

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 2018 is \$3.25 (2017: \$1.10). The assessed value at grant date of performance rights granted during the year ended 30 June 2018 is \$12.06 (2017: between \$9.49 and \$9.86). 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 2018 included:

	Options		Performance rights	
	2018	2017	2018	2017
Exercise price	<b>\$11.41</b>	\$12.23	<b>\$0.00</b>	\$0.00
Grant date	<b>October 2017</b>	October 2016	<b>October 2017</b>	October 2016
Expiry date	<b>October 2032</b>	October 2031	<b>October 2032</b>	October 2031
Share price at grant date	<b>\$13.74</b>	\$11.05	<b>\$13.74</b>	\$11.05
Expected price volatility of the Company's shares	<b>25.9%</b>	23.0%	<b>25.9%</b>	23.0%
Expected dividend yield	<b>3.2%</b>	3.8%	<b>3.2%</b>	3.8%
Risk-free interest rate	<b>2.5%</b>	1.8%	<b>2.5%</b>	1.7%

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

## 26. Parent entity financial information

### (a) Summary financial information

	2018 \$'000	2017 \$'000
<b>Balance sheet</b>		
Current assets	81,936	57,443
Non-current assets	902,732	433,914
<b>Total assets</b>	<b>984,668</b>	491,357
Current liabilities	451,928	28,501
Non-current liabilities	232,063	188,215
<b>Total liabilities</b>	<b>683,991</b>	216,716
<i>Shareholders' equity</i>		
Issued capital	119,541	105,861
Reserves	16,933	22,864
Retained earnings	164,203	145,916
<b>Total equity</b>	<b>300,677</b>	274,641
<b>Profit or loss for the year</b>	<b>119,911</b>	123,589
<b>Total comprehensive income</b>	<b>120,613</b>	123,618

### 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.

#### 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 2018 or 30 June 2017.

## 27. Contingent liabilities

The Group and the parent entity from time to time may incur obligations arising from litigation or other contracts entered into in the normal course of business. Neither the Group or parent entity have any material contingent liabilities where the probability of outflow in any settlement is greater than remote as at 30 June 2018 or 30 June 2017 other than the associates contingent liabilities as set out in Note 20(c).

## 28. 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 aside from as specifically set out below:

- AASB 9 Financial Instruments (effective application date for the Group 1 July 2018)
  - AASB’s new impairment model introduces an expected credit loss model when assessing impairment of financial instruments. For the Group, this means a change in how the impairment of trade receivables is assessed. These changes are not expected to result in a material impact on the financial statements.
- AASB 15 Revenue from Contracts with Customers (effective application date for the Group 1 July 2018)
  - AASB’s new revenue model is based on the principal that revenue is recognised when control of a good or service transfers to a customer – the notion of control replaces the existing notion of risks and rewards. It also clarifies how the consideration should be allocated between different deliverables in a contract.
  - Management has assessed the effects of applying the new standard on the Group’s financial statements and has concluded that the application of the standard would not result in a material adjustment to the comparative financial information. carsales will report for the first time under the new standard for the full year ending June 2019 (interim December 2018) and the Group intends to apply the full retrospective approach and will apply the AASB 15 requirements to the comparative period.

AASB 16 Leases (effective application date for the Group 1 July 2019)

- AASB 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases has been removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.
- As at the reporting date, the Group had non-cancellable operating lease commitments of \$43.8 million, see Note 19. The Group has not estimated the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group’s profit or loss. The new standard is mandatory for carsales for the full year ending June 2020 and at this stage, the Group does not intend to adopt the standard before its effective date. The Group has not yet determined which transition approach to apply.

## 29. Events occurring after the reporting period

On 3rd July 2018 carsales.com Ltd successfully completed the refinance of its syndicated revolving loan facilities. Pursuant to this refinance, the Company established a new A\$545.0 million debt facility under a Common Terms Deed (CTD) documentation structure, as follows:

Tranche	Commitment (\$m)	Drawn at close (\$m)	Maturity date
Tranche A	\$335.0	\$335.0	5 July 2021
Tranche B	\$210.0	\$115.0	4 July 2023
<b>Total</b>	<b>\$545.0</b>	<b>\$450.0</b>	

At close, the loan facilities provided under the Company’s existing \$511 million facility, of which \$246.0 million were classified as current were repaid in full and cancelled.

Six financiers are part of the new syndicate and each of these financiers entered into a bilateral facility agreement with the Company under the CTD documentation structure. The new syndicate comprises NAB, ANZ, HSBC, Westpac Banking Corporation, MUFG Bank Ltd and Bank of China.

Borrowings under the new debt facilities bear interest at a floating rate of BBSY Bid plus a margin, with margin based on a net leverage ratio of the Group.

On 4th July 2018, the Company also entered into AUD:KRW Non-Deliverable Cross Currency Swaps with the syndicate banking group with a total notional value of A\$335.0 million, with A\$125.0 million having a maturity of 3 years and A\$210.0 million a maturity of 5 years. These derivative instruments swap AUD floating rates with South Korean Won Fixed rates, thus synthetically creating A\$335.0 million of fixed rate debt. These swaps will be treated as a hedge of the net investment in SK ENCARSALES.COM Ltd from inception.

Aside from this refinance, 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 2018

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 91 to 142 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 2018 and of its performance for the financial year ended on that date.
- (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 CEO, and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.



**Cameron McIntyre**  
Managing Director and CEO

Melbourne  
21 August 2018

# Independent Auditor's Report

## To the members of carsales.com Limited



### Report on the audit of the financial report

#### Our opinion

In our opinion:

The accompanying financial report of carsales.com Limited (the Company) and its controlled entities (together the Group or carsales) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2018
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

#### Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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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.



## Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

## Materiality

- For the purpose of our audit we used overall materiality of \$9.1 million, which represented approximately 5% of the Group's adjusted profit before income tax. Profit before income tax was adjusted to exclude the net gain recognised on the step acquisition of SK ENCARSALES.COM Limited (SK Encar) of \$57.0 million.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group profit before income tax because in our view, it is the benchmark against which the performance of the Group is most commonly measured and it is a generally accepted benchmark. We adjusted profit before income tax to add back the net gain recognised on the step acquisition of SK Encar, because it represented a significant one-off gain that did not affect the underlying operations of the Group.
- We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

## Audit scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- carsales operates across five operating segments, being online advertising services, data, research and services, Latin America, Asia and finance and related services. Its head office function is based in Melbourne, Australia.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Risk Management Committee.

# Independent Auditor's Report continued

To the members of carsales.com Limited



## Key audit matter

### Carrying value of goodwill related to Stratton Finance Group

Refer to note 16 Intangible assets

Included within Intangible assets at 30 June 2018 is the goodwill for Stratton Finance Group of \$58.7 million (30 June 2017: \$58.7 million). We focussed on impairment testing for Stratton due to the impact of volume capacity constraints experienced by a major lender in FY17.

The impairment test was undertaken using a value in use discounted cash flow model as described in note 16 (b) of the financial report. The following assumptions were judgemental:

- Five year cash flow forecast sourced from the FY19 budget and long term forecasts for FY20 to FY23
- The long term growth rate applied to the forecast cash flows in the terminal year
- Discount rate used to discount the estimated cash flows.

Management have included disclosure in the financial report detailing the impact of reasonably possible changes in key assumptions on the level of headroom in the impairment model.

We considered this to be a key audit matter because the goodwill is material, the calculated recoverable amount was sensitive to a reasonably possible change in certain assumptions and there was judgement involved in determining the key assumptions.

## How our audit addressed the key audit matter

We evaluated the cash flow forecasts used to assess the carrying value of the Stratton Finance Group cash generating unit. This included:

- compared the budgeted cash flows for FY19 used in the model with the FY19 budget
- considered the key factors and underlying drivers for growth in the context of Stratton Finance Group's future plans
- tested the calculations in the cash flow model for mathematical accuracy.

We compared actual EBITDA for FY16 to FY18 to the Board approved budget for the same period. This was done in order to assess the level of historical accuracy of cash flow forecasts.

With the assistance of our valuation experts, we evaluated the appropriateness of the discount rate and long term growth rate assumptions used in the cash flow forecast, by comparing them to our independently calculated acceptable range.

We performed a sensitivity analysis by reducing cash flow growth rates, terminal growth rates and increasing the discount rate.

We also considered the adequacy of disclosures made in relation to impairment testing of the assets in the cash generating unit in light of the requirements of Australian Accounting Standards.



## Key audit matter

### Accounting for the SK Encar business combination

Refer note 21 (a) Business combinations and disposals

On 19 January 2018 carsales acquired the remaining 50.1% of SK Encar, giving carsales 100% control of the online auto classifieds business. Total purchase consideration was \$446.2 million.

The transaction was accounted for as a step acquisition in accordance with Australian Accounting Standards. This involved a number of complex judgements by the Group including:

- Estimation of fair value of carsales' existing 49.9% holding in SK Encar including the allocation of a control premium. The fair value uplift was required to be recorded as a gain under Australian Accounting Standards.
- Calculation of net foreign exchange gains relating to carsales' existing investment in SK Encar previously recognised in other comprehensive income, that were reclassified to profit or loss.
- Identification of acquired assets and liabilities and estimation of fair value for initial recognition, particularly the customer relationship asset and SK Encar brand name. carsales was assisted by an independent valuation expert.
- Determination that the special compensation payment related to the recipients' previous employment and the associated accounting treatment.

Accounting for the acquisition of SK Encar was a key audit matter given its financial significance to the carsales Group and the extent of judgements involved.

## How our audit addressed the key audit matter

Assisted by PwC valuation experts in aspects of our work, our procedures included the following, amongst others:

- Evaluated the Group's accounting against the requirements of Australian Accounting Standards, and the sale and purchase agreement.
- Assessed the fair value of acquired assets and liabilities recognised, including:
  - considered the discount rate assumption
  - evaluated key assumptions including the attrition rate used to value the customer relationship asset and the royalty rate used to value the SK Encar brand name
  - assessed the valuation methodology in light of the requirements of Australian Accounting Standards
  - assessed the competence and capability of the Group's expert.
- Checked that the fair value of carsales' existing 49.9% was consistent with the acquisition price paid for SK Encar and the control premium was within an acceptable range.
- Checked the gain on remeasurement of the previously held interest was recognised in the profit or loss.
- Considered the adequacy of the business combination disclosures in light of the requirements of Australian Accounting Standards.

# Independent Auditor's Report continued

To the members of carsales.com Limited



## Key audit matter

### Carrying value of equity accounted investment in Webmotors S.A.

Refer to note 20 (c) Interests in associates

At 30 June 2018 the investment in associate Webmotors S.A. was \$58.8 million (30 June 2017: \$63.7 million). The investment was tested for impairment due to previous declines in the Brazilian economy.

The investment was tested for impairment using a value in use discounted cash flow model as set out in note 20 (c) of the financial report. The following assumptions were judgemental:

- Five year cash flow forecast sourced from the FY19 budget and long term forecasts for FY20 to FY23
- The long term growth rate applied to the forecast cash flows in the terminal year
- Discount rate used to discount the estimated cash flows.

We considered this to be a key audit matter because the investment in Webmotors S.A. is material and there is judgement involved in determining the key assumptions to be used for the purposes of impairment testing.

## How our audit addressed the key audit matter

We evaluated the cash flow forecasts used to assess the carrying value of carsales' investment in Webmotors S.A. This included comparing the budgeted cash flows used in the model with the budget formally approved by the Board.

We also assessed the cash flow forecasts in the model by considering the key factors and underlying drivers for growth in the context of Webmotors S.A.'s future plans.

We tested the calculations in the cash flow model for mathematical accuracy.

We compared actual performance to budget for FY17 and the first half of FY18. This was done in order to assess the level of historical accuracy of cash flow forecasts.

With the assistance of our valuation experts, we evaluated the appropriateness of the discount rate and long term growth rate assumption used in the cash flow forecast, by comparing them to our independently calculated acceptable range.

We performed a sensitivity analysis by reducing cash flow growth rates and increasing the discount rate.

We also considered the adequacy of disclosures made in relation to impairment testing in light of the requirements of Australian Accounting Standards.



## Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the directors 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 *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.

## Report on the remuneration report

### Our opinion on the remuneration report

We have audited the remuneration report included in pages 57 to 84 of the directors' report for the year ended 30 June 2018.

In our opinion, the remuneration report of carsales.com Limited for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

## Responsibilities

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.

PricewaterhouseCoopers

Lisa Harker  
Partner

Melbourne  
21 August 2018

# Shareholder Information

## 30 June 2018

The shareholder information set out below was applicable as at 30 June 2018.

### A. Distribution of equity securities

Holding	Class of equity security			
	Ordinary shares	Options and performance rights	Redeemable preference shares	Convertible notes
	Shares			
1 – 1,000	9,905	4	–	–
1,001 – 5,000	6,392	33	–	–
5,001 – 10,000	792	9	–	–
10,001 – 100,000	440	31	–	–
100,001 and over	81	6	–	–
	17,610	83	–	–

There were 275 holders of less than a marketable parcel of ordinary shares.

## B. Equity security holders

### Twenty largest quoted equity security holders

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

Name	Ordinary shares	
	Number held	Percentage of issued shares
HSBC Custody Nominees (Australia) Limited	84,488,522	34.8
J P Morgan Nominees Australia Limited	41,665,126	17.1
Citicorp Nominees Pty Limited	15,353,191	6.3
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	9,511,453	3.9
National Nominees Limited	7,091,044	2.8
BNP Paribas Noms Pty Ltd <DRP>	4,284,590	1.8
Essena Pty Ltd	3,281,284	1.4
Citicorp Nominees Pty Limited <Colonial First State INV A/C>	2,133,090	0.9
Billkaren Pty Ltd <Robinson Family A/C>	2,075,500	0.9
Australian Foundation Investment Company Limited	2,070,449	0.9
Four Us Pty Ltd	1,926,555	0.8
Citicorp Nominees Pty Limited <Citibank NY ADR DEP A/C>	1,174,766	0.5
Mr Andrew Gajtan Curmi	1,160,500	0.5
Australian Foundation Investment Company Limited	1,106,389	0.5
Gregory Paul Roebuck	1,073,968	0.4
Mrs Anne Beirne	1,000,000	0.4
Milton Corporation Limited	995,000	0.4
Steven Kloss Pty Ltd <Kloss Family A/C>	987,000	0.4
AMP Life Limited	964,945	0.4
Kilienz Pty Ltd <PW & AE Aitken Family A/C>	818,048	0.3
	183,161,420	75.4
	<b>Number on issue</b>	<b>Number of holders</b>
Options and performance rights issued under the carsales.com Employee Option Plan to take up ordinary shares	2,419,911	83

# Shareholder Information continued

## 30 June 2018

### C. Substantial holders

Substantial holders in the Company are set out below:

	<b>Number held</b>	<b>Percentage</b>
Hyperion Asset Management	13,386,553	5.5

### 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

## Directors

### **Richard Collins**

(Non-Executive Chair)  
(Appointed Chair on 23 March 2018 – formerly  
Non-Executive Deputy Chair)

### **Cameron McIntyre**

(Managing Director and CEO)

### **Jeffrey Browne**

(Non-Executive Chair)  
(Retired 23 March 2018)

### **Wal Pisciotta OAM**

(Non-Executive Director)

### **Pat O’Sullivan**

(Non-Executive Director)

### **Kim Anderson**

(Non-Executive Director)

### **Edwina Gilbert**

(Non-Executive Director)

### **Kee Wong**

(Non-Executive Director)  
(Appointed 9 July 2018)

### **Steve Kloss**

(Alternate Non-Executive Director)

## Company secretary

Nicole Birman

## Registered office

Level 4, 449 Punt Road  
Richmond Vic 3121  
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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  
2 Riverside Quay  
Southbank Vic 3006

## Stock Exchange

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

ASX: CAR

