

carsales.com.au Ltd

ABN 91-074-444-018

**Interim financial report
for the half-year ended 31 December
2006**

Contents

	Page
Chairman's letter to shareholders	1
Managing director's review of operations	2
Directors' report	3
Interim Financial report	5
Directors' declaration	14
Independent review report to the members	15

Dear Shareholders

The Board is again pleased to provide the half year accounts of the company for the period ending 31 December 2006 and provide you with an update on the continuing impressive performance of your company.

The financial highlights are clearly –

- | | | | |
|---|-----------|----|------------|
| • Revenue has more than doubled from | \$10.634M | to | \$ 21.274M |
| • Profit before tax (EBT) has grown more than 123% from | \$ 2.976M | to | \$ 6.654M |
| • Earnings Per Share (EPS) are up over 60% from | \$.013 | to | \$.021 |

A dividend has been declared of \$.0125 per share. The company has a policy of paying 60% of NPAT to shareholders as a dividend (we exceeded this in the previous corresponding distribution). Returning to the declared 60% distribution rate will still provide -

- | | | | |
|--|-------------------|----|---------|
| • a growth in dividends of over 50% from | \$.008 per share | to | \$.0125 |
|--|-------------------|----|---------|

The dividend will be payable for shareholders of record on 29 March 2007 and will be payable on 16 April 2007. (The above growth figures represent the progress from the previous corresponding period: half-year December 2005)

The impressive above results are reflective of the progress in the rest of the business –

- carsales.com.au continued to maintain its no. 1 position in the ever hyper-competitive automotive classified ad space
- carsales has strengthened its lead in unique visitors and pages displayed
- the business is now operating in one location (although it is rapidly outgrowing this site)
- the executive team has been and continues to be strengthened
- the retail public has completely embraced the Internet for their automotive classified needs and the Motor Industry, both retail and wholesale, is increasingly following for their classified and brand promotion requirements.

The Board invited and was delighted to welcome Mr. Ian Law, CEO of PBL Media to the carsales.com.au Ltd. Board of Directors. The Board still has an intention to list the company's shares on the ASX this calendar year.

Please continue to check the shareholders section of the carsales.com.au website for further news. We look forward to bringing you news of further progress in our year end report.



Sincerely
Wal Pisciotta
Chairman Oakleigh, 15 March 2007

Dear Shareholders,

Our first half year result for the FY07 year is again a result I'm pleased to be presenting! Not only from a perspective of our financials, but also from an operations perspective. We have continued to invest in our infrastructure and technology platforms and the next 6 months will see the roll out of a number of exciting changes that have been in development over the last year.

We are predominantly through the process of integrating the assets we acquired in November 2005 and as a result are surging ahead in all metrics. We have by far the largest inventory of vehicles for sale in Australia (currently sitting over 120,000 cars just on the carsales.com.au site), the largest visitor count and MOST importantly, the most results for our customers in the only metric that they look at – number of cars sold!

Our other sites continue to progress with our Boatpoint.com.au and iHub.com.au sites clear market leaders in their respective verticals of marine and Industry. The two clear leading motorbike websites are both operated by carsales.com.au Ltd.

We have continued to establish key relationships with the Motor Industry and are pleased to have such great quality companies as Mazda, Subaru and Saab join the ever growing list of car companies choosing carsales.com.au to power sections of their websites. As part of this process we have created the DataMotive business unit to reflect our commitment to the services section of carsales.com.au Ltd. DataMotive delivers world class training, photography, manufacturer, inventory management and lead management services to many of Australia's most successful automotive businesses.

To facilitate our growth, we continue to invest in staff around the country with nearly half of our 150 people customer facing. We are very fortunate to have the quality and commitment of these people in our business and it is truly the reason we are succeeding.

Most of you will have seen our television commercial, a billboard or heard us on radio. Our core brand is now a household word and this delivers the most opportunity for our customers to get results. Our competitors continue to work hard at taking market share and almost every month sees a new entrant into one or more of our marketplaces. The good news is that they help us by reinforcing the best way to get a result when selling a car, bike, boat or in fact anything: is online!

Once again, thank you from all at carsales.com.au Ltd. for your continued support.

Yours sincerely



Greg Roebuck
Managing Director and CEO, Oakleigh, 15 March 2007

Directors' report

Directors

The following persons were directors of carsales.com.au Ltd during the half year ended 31 December 2006 and up to the date of this report:

Wal Pisciotta
James Packer
John Alexander
Ric Collins
Gregg Haythorpe
Greg Roebuck

Ian Law was appointed a director on 17 February 2007 and continues in office at the date of this report.

Review of operations

During the half year to 31 December 2006 the Group generated gross revenues of \$21,273,660 (2005: \$10,633,859). Group profits before tax for the period were \$6,654,222 (2005: \$2,975,808) and Group profit after tax was \$4,677,692 (2005: \$2,111,531). Please refer to the Chairman's letter to shareholders and the Managing Director's review of operations for further information about the operations of the Group.

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 4.

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



Greg Roebuck
Director

Oakleigh
15 March 2007



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Auditor's Independence Declaration

As lead auditor for the review of carsales.com.au Limited for the half year ended 31 December 2006, 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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

A handwritten signature in black ink, appearing to read 'W. Tarrant'.

W L Tarrant
Partner
PricewaterhouseCoopers

Melbourne
15 March 2007

Contents

	Page
Interim financial report	
Consolidated income statement	6
Consolidated balance sheet	7
Consolidated statement of changes in equity	8
Consolidated cash flow statement	9
Notes to the financial statements	10
Directors' declaration	14
Independent review report to the members	15

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2006 and any public announcements made by carsales.com.au Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

carsales.com.au Ltd
Consolidated income statement
For the half-year ended 31 December 2006

	Half-year ended	
	31 December 2006	31 December 2005
	\$	\$
Revenue from continuing operations	21,273,660	10,633,859
Sales and marketing expenses	(7,593,711)	(3,145,308)
Operations and administration	(5,373,512)	(3,343,471)
Service development & maintenance	(1,426,684)	(935,458)
Depreciation and amortisation expense	(219,972)	(225,895)
Finance costs	(5,559)	(7,920)
Profit before income tax	6,654,222	2,975,807
Income tax expense	(1,976,530)	(864,277)
Profit from continuing operations	4,677,692	2,111,530
Profit attributable to members of carsales.com.au Ltd	4,677,692	2,111,530
	Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the company:		
Basic earnings per share	2.1	1.3
Diluted earnings per share	2.1	1.3

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

carsales.com.au Ltd
Consolidated balance sheet
As at 31 December 2006

	31 December 2006	30 June 2006
Notes	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	13,357,960	9,803,493
Receivables	<u>5,321,751</u>	<u>4,614,947</u>
Total current assets	<u>18,679,711</u>	<u>14,418,440</u>
Non-current assets		
Property, plant and equipment	666,337	545,897
Intangible assets	44,241,697	44,239,971
Deferred tax assets	<u>495,618</u>	<u>399,723</u>
Total non-current assets	<u>45,403,652</u>	<u>45,185,591</u>
Total assets	<u>64,083,363</u>	<u>59,604,031</u>
LIABILITIES		
Current liabilities		
Interest bearing liabilities	26,473	142,025
Provisions	579,223	469,775
Current tax liabilities	3,582,701	1,812,582
Payables	<u>3,794,961</u>	<u>3,872,958</u>
	<u>7,983,358</u>	<u>6,297,340</u>
Total current liabilities	<u>7,983,358</u>	<u>6,297,340</u>
Non-current liabilities		
Interest bearing liabilities	27,776	38,148
Provisions	<u>376,180</u>	<u>344,508</u>
Total non-current liabilities	<u>403,956</u>	<u>382,656</u>
Total liabilities	<u>8,387,314</u>	<u>6,679,996</u>
Net assets	<u>55,696,049</u>	<u>52,924,035</u>
EQUITY		
Contributed equity	57,159,962	56,568,069
Reserves	117,482	146,625
Retained profits (accumulated losses)	<u>(1,581,395)</u>	<u>(3,790,659)</u>
	<u>55,696,049</u>	<u>52,924,035</u>
Total equity	<u>55,696,049</u>	<u>52,924,035</u>

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

carsales.com.au Ltd
Consolidated statement of changes in equity
For the half-year ended 31 December 2006

		Half-year ended	
		31 December	31 December
		2006	2005
	Notes	\$	\$
Total equity at the beginning of the half-year		<u>52,924,035</u>	<u>4,631,034</u>
Profit for the half-year		<u>4,677,692</u>	<u>2,111,530</u>
Total recognised income and expense for the year		<u>4,677,692</u>	<u>2,111,530</u>
Transactions with equity holders in their capacity as equity holders:			
Contributions of equity, net of transaction costs	3	-	45,250,000
Dividends provided for or paid	5	<u>(2,468,428)</u>	<u>(1,313,533)</u>
Employee share options		<u>562,750</u>	<u>114,000</u>
		<u>(1,905,678)</u>	<u>44,050,467</u>
Total equity at the end of the half-year		<u>55,696,049</u>	<u>50,793,031</u>

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

carsales.com.au Ltd
Consolidated cash flow statement
For the half-year ended 31 December 2006

	Half-year ended 31 December 2006 \$	31 December 2005 \$
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	22,404,859	9,630,365
Payments to suppliers and employees (inclusive of goods and services tax)	<u>(16,824,620)</u>	<u>(7,436,292)</u>
	5,580,239	2,194,073
Interest income	326,982	102,091
Interest paid	<u>(5,559)</u>	<u>(7,920)</u>
Net cash (outflow) inflow from operating activities	<u>5,901,662</u>	<u>2,288,244</u>
Cash flows from investing activities		
Net cash acquired through purchase of subsidiaries	6 -	1,104,191
Payments for intangible assets	(1,725)	(6,030)
Payments for investment property	<u>(343,013)</u>	<u>(78,744)</u>
Net cash (outflow) inflow from investing activities	<u>(344,738)</u>	<u>1,019,417</u>
Cash flows from financing activities		
Proceeds from issues of shares and other equity securities	591,893	114,000
Repayment of borrowings	(125,924)	(37,924)
Dividends paid to company's shareholders	5 (2,468,428)	(1,313,533)
Net cash inflow (outflow) from financing activities	<u>(2,002,459)</u>	<u>(1,237,457)</u>
Net increase (decrease) in cash and cash equivalents	3,554,465	2,070,204
Cash and cash equivalents at the beginning of the half-year	<u>9,803,495</u>	<u>3,235,491</u>
Cash and cash equivalents at end of the half-year	<u>13,357,960</u>	<u>5,305,695</u>

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

1 Summary of significant accounting policies

This general purpose financial report for the interim half-year reporting period ended 31 December 2006 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2006 and any public announcements made by carsales.com.au Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

These financial statements have been prepared under historical cost convention.

2 Segment information

(a) Description of segments

Business Segments

The Group principally operates in one business segment, namely Automotive Classified Services. All activities are principally conducted in the Australian Market.

3 Equity securities issued

	31 December 2006 Shares	31 December 2005 Shares	31 December 2006 \$	31 December 2005 \$
Issues of ordinary shares during the half-year				
Exercise of options issued under the carsales.com.au Ltd Option Plan	1,732,857	445,000	591,893	114,000
Issued in consideration for acquisition of ACP Points Pty Ltd and Equipment Research Group Pty Ltd	-	91,314,181	-	45,250,000
	<u>1,732,857</u>	<u>91,759,181</u>	<u>591,893</u>	<u>45,364,000</u>

4 Reserves

	31 December 2006 \$	30 June 2006 \$
(a) Reserves		
Employee options reserve	<u>117,482</u>	<u>146,625</u>

5 Dividends

	Half-year ended 31 December 2006 \$	31 December 2005 \$
(a) Ordinary shares		
Final fully franked cash dividend for the year ended 30 June 2006 of 1.1c per share paid on 24 November 2006.	2,468,428	-
Final unfranked cash dividend for the year ended 30 June 2005 of 1 cent per share paid on 3 October 2005	-	1,313,533
(b) Dividends not recognised at the end of the half-year		
In addition to the above dividends, since the end of the half-year the directors have recommended the payment of an fully franked interim dividend of 1.25 cents per fully paid ordinary share (2005 - 0.8 cents - unfranked). The aggregate amount of the proposed dividend expected to be paid on 16 April 2007 out of retained profits at 31 December 2006, but not recognised as a liability at the end of the half-year, is	<u>2,815,005</u>	<u>1,784,260</u>

6 Business combination

Current period

No business combinations have occurred in the current period.

Prior period

(a) On 28 October 2005 the company acquired all of the issued share capital of ACP Points Pty Ltd and Equipment Research Group Pty Ltd. ACP Points Pty Ltd is principally involved in automotive online classifieds and Equipment Research Group Pty Ltd is principally involved in online automotive statistics. The purchase agreement provided that the Group received the financial benefit of the acquired entities from 1 November 2005.

The acquired business contributed revenues of \$9,474,009 and net profit of \$2,075,002 to the Group for the period from 28 October 2005 to 30 June 2006. The Directors consider it impractical to disclose the value of consolidated revenues and profits as if they had occurred on 1 July 2005 because the businesses acquired were previously trading as divisions of ACP magazines Ltd and not as standalone businesses.

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

	\$
Purchase consideration (refer to (b) below):	
Fair value of shares issued	45,250,000
Direct costs relating to the acquisition	<u>865,031</u>
Total purchase consideration	46,115,031
Fair value of net identifiable assets acquired (refer to (c) below)	<u>1,963,441</u>
Goodwill	<u>44,151,590</u>

(b) Purchase consideration

	31 December 2005 \$
Cash consideration for direct costs	<u>865,031</u>
Less: Balances acquired	
Cash	<u>1,962,015</u>
Inflow of cash	<u>(1,096,984)</u>

The goodwill is attributable to the high profitability of the acquired business and synergies expected to arise after the company's acquisition of the new subsidiary. The fair value of assets and liabilities acquired are based on discounted cash flow models. No acquisition provisions were created.

6 Business combination (continued)

(c) Assets and liabilities acquired

	Acquiree's carrying amount \$	Fair value \$
Cash	1,962,015	1,962,015
Trade receivables	315,066	147,973
Plant and equipment	118,825	118,825
Intangible assets: Software license	3,603,345	-
Deferred income	(214,155)	(206,948)
Provision for employee benefits	(107,835)	(107,835)
Deferred tax asset	-	49,411
Net identifiable assets acquired	<u>5,677,261</u>	<u>1,963,441</u>

As a result of this transaction, the Company issued 91,314,181 shares. As the Company is an unlisted public company, a published share price is not available to value the shares issued. The fair value of shares issued was estimated to be \$40,250,000 based upon value in use calculations of the net assets acquired.

7 Events after balance date

No matter or circumstance has arisen since 31 December 2006 that has significantly affected or may significantly affect:

- The company's operations,
- the results of those operations or
- the company's state of affairs.

In the directors' opinion:

- (a) the financial statements and notes set out on pages 5 to 13 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that the carsales.com.au Ltd Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



Greg Roebuck
Director

Oakleigh, Victoria
15 March 2007

**INDEPENDENT AUDITOR'S REVIEW REPORT
to the members of carsales.com.au Limited**

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of carsales.com.au Limited, which comprises the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the carsales.com.au Limited Group (the consolidated entity). The consolidated entity comprises both carsales.com.au Limited (the company) and the entities it controlled during that half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of carsales.com.au Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**INDEPENDENT AUDITOR'S REVIEW REPORT
to the members of carsales.com.au Limited (continued)**

Auditor's Responsibility (continued)

For further explanation of a review, visit our website <http://www.pwc.com/au/financialstatementaudit>. While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

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

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of carsales.com.au Limited (the Company) for the half-year ended 31 December 2006 included on carsales.com.au Limited's web site. The company's directors are responsible for the integrity of the carsales.com.au Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the financial report identified above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

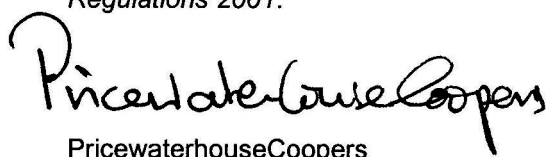
Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of carsales.com.au Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.


PricewaterhouseCoopers



W L Tarrant
Partner

Melbourne
15 March 2007