



Half-Year Report
2018

Continuing our global journey

carsales  com ltd

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Lodged with the ASX under Listing Rule 4.2A. This information should be read in conjunction with the 30 June 2018 Annual Report.

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 2018 and any public announcements made by carsales.com Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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.

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 half-year ended 31 December 2018.

Directors

The following persons were Directors of carsales.com Ltd during the half-year ended 31 December 2018 and up to the date of this report:

Richard Collins (Non-Executive Chair) – Retired as a Director on 4 January 2019

Pat O'Sullivan (Non-Executive Chair) – Appointed Chair on 27 November 2018

Cameron McIntyre (Managing Director and CEO)

Wal Pisciotta OAM (Non-Executive Director)

Kim Anderson (Non-Executive Director)

Edwina Gilbert (Non-Executive Director)

Kee Wong (Non-Executive Director) – Appointed as a Director on 9 July 2018

Steve Kloss (Alternate Non-Executive Director).

Review of operations

The Group delivered a strong performance in its International businesses in the period with a more mixed result from the Domestic operations. The Group reported total operating revenue of \$235.0 million (2017 restated: \$200.5 million) up 17% compared to the same period in FY18. This result was largely driven by:

- In the Domestic business solid performance in the dealer business with revenue up 8% year on year to \$75.0 million.
- Strong private seller revenue performance up 12% year on year to \$41.5 million.
- Display revenue was disappointing being 16% lower year on year at \$29.9 million.
- Internationally SK Encar in Korea recorded revenues of \$29.3 million, 20% up on the same period in FY18 on an underlying local currency basis.

Operating expenses grew ahead of revenue to \$137.0 million reflecting the consolidation of SK Encar after the acquisition in January 2018, faster growth of lower margin adjacencies (such as tyres and inspections) and investment in these businesses as well as our emerging Latin American portfolio of businesses to support future scalable growth.

Earnings before interest, tax, depreciation and amortisation (EBITDA) was \$98.0 million which represents an increase of 8% compared to the prior comparative period (pcp). Excluding the acquisition of SK Encar EBITDA was 7% lower year on year.

The Group's investment in Stratton Finance was impaired during the half by \$47.8 million due to lower than expected performance.

Adjusted net profit after tax after non-controlling interests (Adjusted NPAT) was 2% lower than pcp at \$60.2 million. Reported net profit after tax and non-controlling interests was \$11.1 million, 82% lower than pcp.

Outlook

We continue to monitor our performance and market conditions in each market in which we operate. Assuming these remain consistent, we anticipate revenue, EBITDA and Adjusted NPAT growth will be moderate in the second half of FY19. Domestic core business performance in January has remained solid, with the exception of display advertising. Whilst the display segment remains challenging, we are anticipating improving performance in the second half. We anticipate our domestic adjacent businesses of tyresales and RedBook Inspect will continue to build scale.

As detailed in our market announcement in December, our Finance and Related Services business continues to be impacted by credit tightening as a result of the Financial Services Royal Commission and the recent ASIC legislative changes.

In Brazil, we anticipate continued strong local currency revenue and earnings growth in H2 FY19. In South Korea, we are expecting good local currency revenue and earnings growth in H2 FY19.

Integration of core carsales IP and technology into Chilean, Mexican and Argentinian businesses will continue. In Chile we expect this to drive a good uplift in local currency revenue and earnings. In Mexico and Argentina, we expect this to drive good growth in local currency revenue and key performance metrics.

We continue to execute on our planned investment in technology, marketing and innovation in these businesses to aggressively pursue market leadership.

Subsequent events

No matters or circumstances have 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.

Dividends – carsales.com Ltd

On 12th February 2019, the Directors declared an interim dividend of 20.5 cents fully franked. The dividend will be paid on 5th April 2019.

Restatement of prior year balances

As a result of the changes in the Company's accounting policies, prior year financial statements have been restated to apply the new accounting policies retrospectively from the beginning of the preceding period as set out in Note 1 to the Interim Financial Statements.

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 2.

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

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Class Order to the nearest thousand dollars or, in certain cases, to the nearest dollar.



Cameron McIntyre
Managing Director and CEO
Melbourne
12 February 2019

Auditor's Independence Declaration



Auditor's Independence Declaration

As lead auditor for the review of carsales.com Limited for the half-year ended 31 December 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 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 Limited and the entities it controlled during the period.

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

Lisa Harker
Partner
PricewaterhouseCoopers

Melbourne
12 February 2019

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Consolidated Statement of Comprehensive Income

For the Half-Year Ended 31 December 2018

	Half-year ended	
	31 December 2018	31 December 2017
	Notes	Restated*
	\$'000	\$'000
Revenue from continuing operations		
Sale of goods and services	235,015	200,549
Revenue from continuing operations	235,015	200,549
Expenses		
Costs of sale	(27,177)	(20,387)
Sales and marketing expenses	(58,836)	(50,938)
Service development and maintenance	(16,963)	(11,353)
Operations and administration	(34,034)	(26,832)
Earnings before interest, taxes, depreciation and amortisation	98,005	91,039
Depreciation and amortisation expense	(12,528)	(5,579)
Finance income	1,530	118
Finance costs	(7,561)	(3,162)
Share of net profit from associates accounted for using the equity method	1,486	3,508
Gain on associate investment dilution	2,069	1,251
Impairment loss	(47,809)	-
Profit before income tax	35,192	87,175
Income tax expense	(23,661)	(24,547)
Profit from continuing operations	11,531	62,628
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	26,163	5,785
Movement in defined benefit scheme reserve	(99)	89
Movement in net investment hedge of foreign operations and unrealised loss on cash flow hedge reserve	(22,850)	-
<i>Items that will not be reclassified to profit or loss</i>		
Changes in the fair value of equity instruments at fair value through other comprehensive income	(4,406)	(3,262)
Total comprehensive income for the period	10,339	65,240
Profit is attributable to:		
Owners of carsales.com Ltd	11,096	60,584
Non-controlling interests	435	2,044
	11,531	62,628
Total comprehensive income for the half-year is attributable to:		
Owners of carsales.com Ltd	9,831	63,409
Non-controlling interests	508	1,831
	10,339	65,240
Earnings per share based on profit from continuing operations, attributable to the ordinary equity holders of the parent entity:		
	Cents	Restated* Cents
Basic earnings per share	4.6	25.0
Diluted earnings per share	4.5	24.9

* See Note 1(b) for details about restatements for changes in accounting policies.

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

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	31 December 2018 \$'000	Restated* 30 June 2018 \$'000
ASSETS			
Current assets			
Cash and cash equivalents		108,114	65,061
Trade and other receivables		58,817	67,337
Inventories		851	2,038
Total current assets		167,782	134,436
Non-current assets			
Investments accounted for using the equity method		76,455	68,150
Financial assets at fair value through other comprehensive income	5(a)	16,068	19,797
Property, plant and equipment		14,442	13,909
Deferred tax assets		9,953	9,415
Intangible assets		634,748	658,955
Other receivables		6,907	5,859
Total non-current assets		758,573	776,085
Total assets		926,355	910,521
LIABILITIES			
Current liabilities			
Trade and other payables		45,165	50,226
Borrowings	3	99	246,024
Other financial liabilities		-	1,300
Current tax liabilities		8,138	15,819
Provisions		7,947	7,598
Deferred revenue		3,762	4,761
Total current liabilities		65,111	325,728
Non-current liabilities			
Trade and other payables		131	278
Borrowings	3	504,128	208,734
Other financial liabilities		19,349	20,349
Derivative liabilities	3	22,850	-
Deferred tax liabilities		21,661	20,898
Provisions		1,208	1,129
Total non-current liabilities		569,327	251,388
Total liabilities		634,438	577,116
Net assets		291,917	333,405
EQUITY			
Contributed equity	4	128,411	119,541
Reserves		(28,729)	(24,427)
Retained earnings		185,745	232,289
Non-controlling interests		6,490	6,002
Total equity		291,917	333,405

* See Note 1(b) for details about restatements for changes in accounting policies.

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

Consolidated Statement of Changes in Equity

For the Half-Year Ended 31 December 2018

	Notes	Attributable to owners of carsales.com Ltd			Non- controlling interests \$'000	Total equity \$'000
		Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000		
Balance at 1 July 2018, as previously reported		119,541	(24,427)	234,696	6,011	335,821
Impact of change in accounting policy*				(2,407)	(9)	(2,416)
Restated balance at 1 July 2018		119,541	(24,427)	232,289	6,002	333,405
Profit for the half-year to 31 December 2018		-	-	11,096	435	11,531
<i>Items that may be reclassified to profit or loss</i>						
Exchange differences on translation of foreign operations		-	26,090	-	73	26,163
Movement in defined benefit scheme reserve		-	(99)	-	-	(99)
Movement in net investment hedge of foreign operations and unrealised loss on cash flow hedge reserve		-	(22,850)	-	-	(22,850)
<i>Items that will not be reclassified to profit or loss</i>						
Changes in the fair value of equity instruments at fair value through other comprehensive income		-	(4,406)	-	-	(4,406)
Total comprehensive income for the period		-	(1,265)	11,096	508	10,339
Transactions with owners in their capacity as owners:						
Contributions of equity upon exercise of employee share options		1,492	-	-	-	1,492
Decrease in share-based payment reserve inclusive of tax		-	(174)	-	-	(174)
Dividends paid to members of the parent	6	7,378	-	(57,640)		(50,262)
Dividends paid to non-controlling interests		-	-	-	(538)	(538)
Non-controlling interest on acquisition of subsidiary		-	-	-	1,064	1,064
Transactions with non-controlling interests		-	(2,863)	-	(546)	(3,409)
Balance at 31 December 2018		128,411	(28,729)	185,745	6,490	291,917

* See Note 1(b) for details about restatements for changes in accounting policies.

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

Consolidated Statement of Changes in Equity continued

For the Half-Year Ended 31 December 2018

	Notes	Attributable to owners of carsales.com Ltd			Non- controlling interests \$'000	Total equity \$'000
		Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000		
Balance at 1 July 2017, as previous reported		105,861	14,149	151,607	5,543	277,160
Impact of change in accounting policy*				(2,120)	(4)	(2,124)
Restated balance at 1 July 2017		105,861	14,149	149,487	5,539	275,036
Restated profit for the half-year to 31 December 2017		-	-	60,584	2,044	62,628
<i>Items that may be reclassified to profit or loss</i>						
Exchange differences on translation of foreign operations		-	5,998	-	(213)	5,785
Movement in defined benefit scheme reserve		-	89	-	-	89
<i>Items that will not be reclassified to profit or loss</i>						
Changes in the fair value of equity instruments at fair value through other comprehensive income		-	(3,262)	-	-	(3,262)
Total comprehensive income for the period		-	2,825	60,584	1,831	65,240
Transactions with owners in their capacity as owners:						
Contributions of equity upon exercise of employee share options		1,358	-	-	-	1,358
Increase in share-based payment reserve inclusive of tax		-	1,556	-	-	1,556
Dividends paid to members of the parent	6	6,082	-	(52,035)	-	(45,953)
Dividends paid to non-controlling interests		-	-	-	(1,334)	(1,334)
Non-controlling interest on acquisition of subsidiary		-	-	-	1,098	1,098
Transactions with non-controlling interests		-	(26,288)	-	(1,254)	(27,542)
Restated balance at 31 December 2017		113,301	(7,758)	158,036	5,880	269,459

* See Note 1(b) for details about restatements for changes in accounting policies.

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

Consolidated Statement of Cash Flows

For the Half-Year Ended 31 December 2018

	Half-year ended	
	31 December 2018	31 December 2017
	Notes	\$'000
Cash flows from operating activities		
Receipts from customers (including GST)		212,943
Payments to suppliers and employees (including GST)		(139,178)
Income taxes paid		(27,614)
Net cash inflow from operating activities		46,151
Cash flows from investing activities		
Investment in subsidiaries, net of cash acquired		(15,228)
Investment in associates		-
Investment in financial assets at fair value through other comprehensive income		-
Payments for property, plant and equipment		(949)
Payments for intangible assets		(2,263)
Interest received		118
Net cash (outflow) from investing activities		(18,322)
Cash flows from financing activities		
Proceeds from issues of shares and other equity securities		1,358
Proceeds from borrowings		47,000
Repayment of borrowings		(33,490)
Proceeds from financial instruments		-
Dividends paid to non-controlling interests		(1,334)
Dividends paid to Company shareholders	6	(45,953)
Purchase of non-controlling interests		-
Interest paid		(2,967)
Net cash (outflow) from financing activities		(35,386)
Effects of exchange rates on cash and cash equivalents		182
Net increase/(decrease) in cash and cash equivalents		(7,375)
Cash and cash equivalents at the beginning of the financial year		39,795
Cash and cash equivalents at end of the half-year		32,420

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

Notes to the Consolidated Financial Statements

For the Half-Year Ended 31 December 2018

1. Summary of significant accounting policies

(a) Basis of preparation

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2018 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This condensed consolidated 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 year ended 30 June 2018 and any public announcements made by carsales.com 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 except as set out in (b) below.

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

(b) Changes in accounting policies

AASB 15 Revenue from Contracts with Customers

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 clarified how the consideration should be allocated between different deliverables in a contract.

The Group has adopted AASB 15 *Revenue from Contracts with Customers* effective from 1 July 2018. The Group has applied the full retrospective approach and applied the AASB 15 requirements to the comparative period resulting in a restatement to the opening retained earnings as at 1 July 2017 and 30 June 2018, whilst revenue were restated for the half-year ended 31 December 2017 and were recognised in accordance with AASB 15 for the half-year ended 31 December 2018.

The Group has performed a review of all revenue and income streams including assessment of significant products and services provided to customers to identify any potential pricing or performance obligations which would be accounted for differently under the new standard. Based on this review, a small number of products were identified where revenue has been deferred under the new standard to match the completion of implicit performance obligations within the contract.

The adoption of this standard had a net increase on current half-year revenue of \$870,000 (31 December 2017: increase of \$438,000) and a restatement to reduce retained earnings by \$2,120,000 at 1 July 2017 and \$2,407,000 at 30 June 2018. The impact on the Financial Statements is detailed on the following page.

Impact on the financial statements

	1 July 2017 As originally presented \$'000	Adoption of AASB 15 \$'000	1 July 2017 Restated \$'000
Consolidated statement of financial position			
Trade and other payables	42,002	(126)	41,876
Deferred revenue	6,713	2,250	8,963
Retained earnings	151,607	(2,120)	149,487
Non-controlling interests	5,543	(4)	5,539

	31 December 2017 As originally presented \$'000	Adoption of AASB 15 \$'000	31 December 2017 Restated \$'000
Consolidated statement of comprehensive income			
Sale of goods and services	200,111	438	200,549
Costs of sale	(20,374)	(13)	(20,387)
Basic earnings per share	24.9	0.1	25.0
Diluted earnings per share	24.8	0.1	24.9

	30 June 2018 As originally presented \$'000	Adoption of AASB 15 \$'000	30 June 2018 Restated \$'000
Consolidated statement of comprehensive income			
Sale of goods and services	444,009	(519)	443,490
Costs of sale	(48,585)	227	(48,358)
Basic earnings per share	76.3	(0.2)	76.1
Diluted earnings per share	76.0	(0.1)	75.9

	30 June 2018 As originally presented \$'000	Adoption of AASB 15 \$'000	30 June 2018 Restated \$'000
Consolidated statement of financial position			
Trade and other payables	50,580	(354)	50,226
Deferred revenue	1,991	2,770	4,761
Retained earnings	234,696	(2,407)	232,289
Non-controlling interests	6,011	(9)	6,002

Notes to the Consolidated Financial Statements continued

For the Half-Year Ended 31 December 2018

AASB 9 Financial Instruments

AASB 9 sets out requirements for recognising and measuring financial assets and financial liabilities. This standard replaces AASB 139 *Financial Instruments: Recognition and Measurement*.

The Group performed a review of its current classification and measurement of financial assets and liabilities as well for compliance with the requirements of the new standard. The main impacts for the Group are the classification of equity investments and measuring impairment of trade receivables.

The Group has elected to present in other comprehensive income (OCI) fair value gains and losses of all equity investments that are not held to trade. Investments classified as available-for-sale financial assets at 30 June 2018 are now classified as financial assets at fair value through other comprehensive income. Changes in fair value which were previously taken through other comprehensive income but could subsequently be taken to profit or loss, will no longer be reclassified to profit or loss. This election is irrevocable under AASB 9 Financial Instruments and any gains or losses will not be recycled on disposal of the equity investment from other comprehensive income to profit or loss.

AASB 9 introduces an expected credit loss model for impairment of financial assets. The Group has reviewed the requirements of the 'expected credit loss' model and did not identify any material difference in the level of the required provision.

The Group has elected to adopt the new general hedge accounting model in AASB 9 in respect to the AUD:KRW Cross Currency Swaps entered into on the 4th of July 2018. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward looking approach to assessing hedge effectiveness. As the cross currency swaps were entered into in the current financial year, there was no reclassification or restatement as a result of the application of the new hedge accounting model.

New accounting standard not yet effective

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 (right to use the leased item) and a financial liability to pay rentals are recognised, other than short term and low value leases.

The Group has non-cancellable operating lease commitments of \$40.9 million as at 31 December 2018, primarily consisting of property and motor vehicle leases. The Group is in the process of determining to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows. The new standard is mandatory for the Group from 1 July 2019 and the Group does not intend to adopt the standard before its effective date. The Group has not yet determined which transition approach to apply.

2. 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 as well as RedBook Inspect which provides inspection services to a range of corporate and private consumers.

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

carsales.com Ltd has operations in overseas countries through subsidiaries, equity accounted associate investments and equity investments 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) – 100%
- 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%

Asia

Online Automotive Classifieds:

- iCar Asia Limited (operations in Indonesia, Malaysia and Thailand) – 13.1%
- SK ENCARSALES.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 (16.7%) and equity investment in PromisePay Pte Ltd.

Notes to the Consolidated Financial Statements continued

For the Half-Year Ended 31 December 2018

(b) Segment analysis

Half-year ended 31 December 2018	Online Advertising Services \$'000	Data, Research and Services \$'000	Latin America \$'000	Asia \$'000	Finance and Related Services \$'000	Total \$'000
Segment revenue						
Segment revenue (Note 2(c)(i))	146,336	21,809	4,623	31,336	30,911	235,015
Total segment revenue	146,336	21,809	4,623	31,336	30,911	235,015
Gross profit	129,491	21,348	4,623	31,336	21,040	207,838
EBITDA (Note 2(c)(ii))	73,035	12,605	(3,070)	14,017	1,418	98,005
Depreciation and amortisation						(12,528)
Net finance costs						(6,031)
Share of profit/(loss) from associates			2,300		(814)	1,486
Gain on associate investment dilution					2,069	2,069
Impairment loss					(47,809)	(47,809)
Profit before income tax						35,192
Income tax expense						(23,661)
Non-controlling interests						(435)
Profit for the half-year						11,096
Segment assets (Note 2(c)(iii))						
Segment assets	119,455	19,990	95,269	485,028	36,937	756,679
Deferred tax assets						9,953
Unallocated assets						159,723
Total assets						926,355
Half-year ended 31 December 2017 Restated*	Online Advertising Services \$'000	Data, Research and Services \$'000	Latin America \$'000	Asia \$'000	Finance and Related Services \$'000	Total \$'000
Segment revenue						
Segment revenue (Note 2(c)(i))	142,040	20,609	3,956	1,838	32,106	200,549
Total segment revenue	142,040	20,609	3,956	1,838	32,106	200,549
Gross profit	129,162	20,376	3,956	1,838	24,830	180,162
EBITDA (Note 2(c)(ii))	74,268	11,806	(1,058)	970	5,053	91,039
Depreciation and amortisation						(5,579)
Net finance costs						(3,044)
Share of profit/(loss) from associates			1,645	2,963	(1,100)	3,508
Gain on associate investment dilution					1,251	1,251
Profit before income tax						87,175
Income tax expense						(24,547)
Non-controlling interests						(2,044)
Profit for the half-year						60,584
Segment assets (Note 2(c)(iii))						
Segment assets	119,551	15,373	97,100	166,089	83,241	481,354
Deferred tax assets						6,203
Unallocated assets						67,045
Total assets						554,602

* See Note 1(b) for details about restatements for changes in accounting policies.

(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 2(a). 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, brands, customer relationships, financial assets at fair value through other comprehensive income 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.

3. Borrowings

On 3 July 2018, the Group completed the refinance of its syndicated revolving loan facilities and established a new \$545 million debt facility under a Common Terms Deed (CTD) documentation structure. This debt facility consists of two commitments of \$335 million (Tranche A) and \$210 million (Tranche B) which become due on 5 July 2021 and 4 July 2023 respectively. The debt facility is provided by a syndicate comprising National Australia Bank Limited (NAB), Australia and New Zealand Banking Group Limited (ANZ), Hongkong and Shanghai Banking Corporation (HSBC), Westpac Banking Corporation (WBC), MUFG Bank Ltd and Bank of China.

Borrowing under the 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.

	31 December 2018 \$'000	30 June 2018 \$'000
Current borrowings	99	246,024
Non-current borrowings	504,128	208,734
	504,227	454,758

The Group entered into a number of AUD:KRW Non-Deliverable Cross Currency Interest Swaps (Swaps) on 4 July 2018. These swaps protect the Group against defined foreign currency and interest rate exposures. The hedge against foreign exchange risk will be treated as a hedge against the net investment in SK ENCARSales.COM Ltd. The protection against the variability of cash flows derived from carsales.com Ltd's AUD floating rate debt issuance will be treated as a cash flow hedge. Management assessed the hedge being effective and therefore the fair value movement has been recorded through the net investment and cash flow hedge reserves. The fair value of \$22.9 million in relation to these swaps have been recorded as a non-current liability in the balance sheet.

The Cross Currency Interest Swaps are classified as a Level 2 financial liability and measured at fair value through other comprehensive income.

Notes to the Consolidated Financial Statements continued

For the Half-Year Ended 31 December 2018

4. Contributed equity and reserves

Movement in ordinary shares during the period	Number of Shares	\$'000
Balance at 1 July 2017	241,785,292	105,861
Exercise of options and performance rights under the carsales.com Ltd Option Plan	290,044	1,623
Dividend Reinvestment Plan	906,871	12,057
Balance at 30 June 2018	242,982,207	119,541
Balance at 1 July 2018	242,982,207	119,541
Exercise of options and performance rights under the carsales.com Ltd Option Plan	273,697	1,492
Dividend Reinvestment Plan	512,252	7,378
Balance at 31 December 2018	243,768,156	128,411

5. Financial assets

(a) Financial assets at fair value through other comprehensive income

Name of entity	Ownership interest		Carrying amount	
	31 December 2018	30 June 2018	31 December 2018	30 June 2018
	%	%	\$'000	\$'000
iCar Asia Limited	13.1	13.1	7,027	11,770
PromisePay Pte Ltd	7.3	7.3	7,253	7,253
Other equity investments	N/A	N/A	1,788	774
Total financial assets at fair value through other comprehensive income			16,068	19,797

Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considers this classification to be more relevant. Note 1(b) explains the change in accounting policy.

(b) Associate investment dilution

	31 December 2018	31 December 2017
	\$'000	\$'000
Gain on associate investment dilution	2,069	1,251

Recognition and measurement

Associate dilution

As a result of a change in the Company's holding of its investments in RateSetter Pty Ltd, there is a non-cash gain on associate dilution of \$2,069,000 (2017: \$1,251,000). The ownership percentage in RateSetter is diluted from 18.6% to 16.7%.

6. Dividends

(a) Ordinary shares

	31 December 2018 \$'000	31 December 2017 \$'000
Final dividend		
Final fully franked cash dividend for the year ended 30 June 2018 of 23.7 cents (2017 – 21.5 cents) per fully paid ordinary share paid on 10 October 2018.	50,262	45,953
Final fully franked dividend for the year ended 30 June 2018 of 23.7 cents (2017 – 21.5 cents) - satisfied through the issuance of shares under the Dividend Reinvestment Plan.	7,378	6,082
	57,640	52,035

(b) Dividends not recognised at the end of the reporting period

	31 December 2018 \$'000	31 December 2017 \$'000
In addition to the above dividends, since half-year end the Directors have recommended the payment of 20.5 cents per fully paid ordinary share (2017 – 20.5 cents), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 5 April 2019 out of retained earnings at 31 December 2018, but not recognised as a liability at the end of the reporting period, is	49,972	49,719

(c) Dividend Reinvestment Plan (DRP)

The carsales.com Ltd DRP will be maintained for the 2019 interim 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 (20 March 2019). The last date for shareholders to nominate their participation in the DRP is 5:00pm (AEST) on 21 March 2019. 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 and New Zealand.

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

Notes to the Consolidated Financial Statements continued

For the Half-Year Ended 31 December 2018

7. Intangible assets

(a) 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. With the exception of the carrying value of Stratton's goodwill, the Directors have also considered triggers for impairment for the other CGUs and there have been no triggers identified at 31 December 2018.

'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.

Stratton goodwill impairment

During the half-year ended 31 December 2018, carsales recognised a non-cash impairment charge against the carrying value of its 50.1% investment in Stratton Finance Pty Ltd. As at 31 December 2018, the carrying value of the Stratton CGU was compared with the value in use discounted cash flow model. As at 31 December 2018, the carrying value of Stratton exceeded its value in use by \$47.8 million and an impairment loss of this amount was recognised in the income statement as a result. The carrying value of the remaining goodwill in the Stratton CGU post impairment is \$10.9 million.

In carsales' FY18 Financial Report, the Directors identified that certain external factors had the potential to adversely impact the valuation of the Stratton Finance CGU, including ASIC legislative changes on car financing which came into effect in November 2018 and the continued tight credit market conditions. The identified external factors have impacted Stratton since the FY18 financial report resulting in the impairment.

The key assumptions used in determining Stratton impairment charge are as follows:

			31 December 2018	30 June 2018	31 December 2018	30 June 2018
CGU	Valuation method	Years of cash flow projection	Terminal growth rate		Post-tax discount rate	
Stratton Finance Group	Value in use	5	3.00%	3.00%	9.75%	9.75%

(b) Impact of possible changes in key assumptions

Stratton goodwill impairment

Given that an impairment has been recognised, any adverse change in the key assumptions could result in an additional impairment to goodwill being recognised.

Calculation of the impairment charge is sensitive to changes in the key assumptions as follows:

- Discount rate: a 1.0% increase in the post-tax discount rate to 10.75%.
- Terminal growth rate: a 1.0% decrease in the terminal growth rate to 2%.

Should either of these reasonably possible changes in key assumptions occur, the impairment charge indicated by the value in use discounted cash flow model would increase further by \$2.0 million and \$1.6 million respectively.

8. Events occurring after the reporting period

No matters or circumstances have 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

In the Directors' opinion:

- (a) the financial statements and notes set out on page 3 to 17 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 31 December 2018 and of its performance for the half-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
12 February 2019

Independent Auditor's Review Report to the Members of carsales.com Ltd



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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of carsales.com Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for carsales.com Limited and the entities it controlled during the half year (the Group).

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

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 Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a 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 half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 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 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. 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.

Independence

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

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Independent Auditor's Review Report to the Members of carsales.com Ltd continued



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 Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive script.

PricewaterhouseCoopers

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

Lisa Harker
Partner

Melbourne
12 February 2019

Corporate Directory

Directors

Richard Collins

(Non-Executive Chair)
(Retired as a Director on 4 January 2019)

Pat O'Sullivan

(Non-Executive Chair)
(Appointed Chair on 27 November 2018)

Cameron McIntyre

(Managing Director and CEO)

Wal Pisciotta OAM

(Non-Executive Director)

Kim Anderson

(Non-Executive Director)

Edwina Gilbert

(Non-Executive Director)

Kee Wong

(Non-Executive Director)
(Appointed as a Director on 9 July 2018)

Steve Kloss

(Alternate Non-Executive Director)

Company Secretary

Nicole Birman

Registered office

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Share registry

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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

