reagroup

Future focus

ANNUAL REPORT 2010

Contents

collaboration

INTEGRITY

innovation

ACCOUNTABILITY

PASSION

This has been a LANDMARK YEAR *for* REA GROUP

This has been a landmark year for REA Group, with record financial results and a renewed commitment to technology leadership in the online real estate marketing arena.

In 2009, we defined our goal as profitable growth in markets where REA Group's position is strong. As a result, the Group took decisive action to focus on business activities in a smaller number of core markets.

These changes provided the foundation for the Group's growth this year and the delivery of its excellent financial results.

Financial highlights for 2010 include:

- Revenue up 16% to $194.3m
- EBITDA increased 25% to $78m
- Cash grew by 112% to 88.2m
- Earnings per share increased 53% to 39.1c

Given our strong balance sheet, the Board is very pleased to declare a dividend of 16 cents per share, to be paid on 15 October 2010. This represents a 60% increase on the 2009 final dividend of 10 cents per share. Shareholders wishing to reinvest their dividend in REA shares can do so through our Dividend Reinvestment Plan (DRP), which offers a 2.5% discount to the weighted average market price.

As part of the commitment to delivering shareholder value, the Board announced on 19 August 2010 a modification to the dividend policy of REA group which aims to pay a semi-annual dividend of 30-50% of Net Profit After Tax (NPAT).

Over the course of FY10, REA Group outperformed the S&P/ASX200 index. More recently, REA Group was added to the S&P/ASX 300 index in September 2010 following the quarterly rebalance of the index.

Operations

REA Group is now the market leader in Australia, Italy and Greater Luxembourg, and operates the leading English-language property site in Hong Kong.

Already highly profitable in Australia, the Group's France and Luxembourg operations are now profitable and our Hong Kong business significantly reduced its losses during the year, whilst also investing in a Chinese-language website and print publication to complement its English-language offerings.

Innovation

In Australia, real estate surpassed employment to become the leading online classifieds category in FY2010[1]. As the Australian market leader, REA is a core driver of this growth and this year we made a significant investment in technology to help ensure the Group remains at the forefront of industry innovation.

[1] Source: IAB Australia Online Advertising Expenditure Report 30 June 2010.

In April, REA launched a new technology platform which is being rolled out to the Group's portfolio of websites. The first site to move onto the new platform was our flagship site, realestate.com.au, with the Italian site casa.it and Australian commercial real estate site, realcommercial.com.au to follow in late 2010.

The flexibility afforded by the new technology has led to immediate increases in our rate of innovation and REA now operates on a 90-day innovation cycle with new products and enhancements launched every 90 days.

People

REA's strong performance this year is due to the outstanding leadership provided by the Group's executive team and the dedication and professionalism of our employees in Australia and overseas. The Board would like to thank the entire REA team for their individual contributions to the Group's success and for rising to the challenges of an increasingly fast-paced and changing environment.

The Board has also seen some changes this year with the departure of two directors, Alisdair McLeod and Jeremy Phillips, and the appointment of Diana Eilert and John Pittard. We would like to thank Alisdair and Jeremy for their valued contributions and extend a warm welcome to Diana and John.

Of course, REA's success is the outcome of connecting consumers with properties and helping our real estate agent customers to achieve their objectives. For this reason, REA is very focused on delivering value to customers and consumers. This year we have worked hard to build closer relationships with our customers, so we can better deliver the products and services they need to be successful. Our investment in new technology also helps us to meet the changing needs of consumers, with mobile and small screen technologies becoming an increasingly important part of our business.

This has been a transformational year for REA Group and the technology and operational changes implemented this year will underpin our business in the years to come. On behalf of the Board, we thank you for your continued support and look forward to sharing REA Group's future success with you.

Richard J Freudenstein
Chairman

Greg Ellis
CEO and Managing Director

WE AIM TO BE AT THE FOREFRONT OF ONLINE PROPERTY

Throughout the rapid evolution of REA Group, one constant has been the Group's commitment to innovation. Fifteen years on from its early beginnings in the Melbourne suburbs, REA's global portfolio of websites is visited by around 10 million unique browsers each month and the Group is determined to be known globally as the most innovative digital marketing company for real estate.

This financial year REA invested in a new technology platform to support the Group's continued growth. The flexible and scalable platform was launched on time and on budget in April this year with REA's flagship site, realestate.com.au, the first to be upgraded.

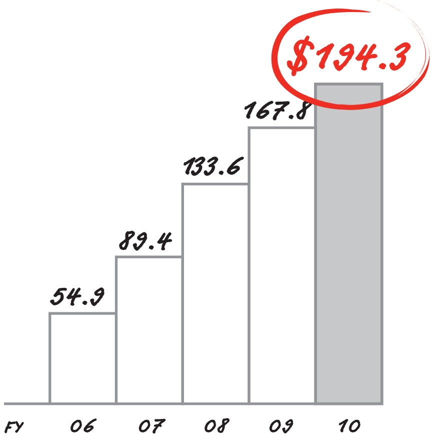
The new realestate.com.au site offers new features and functionality for consumers, improved performance, and includes a new range of depth products and reporting tools for agents and vendors.

The technology will be progressively rolled out to all REA Group sites, with the relaunch of the Group's Italian site, casa.it, and leading Australian commercial real estate site, realcommercial.com.au, scheduled for late 2010.

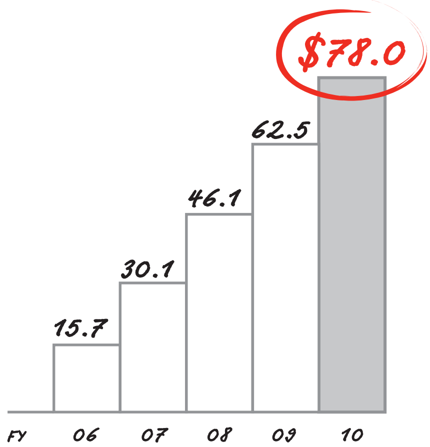
The new platform, combined with REA's use of the Agile methodology for software development, has led to an increased rate of innovation. The Group now benefits from a 90-day innovation cycle, with new products and enhancements delivered every 90 days.

WHAT EXCITES OUR CUSTOMERS?
twitter
Leaders
STUDIES OF EVERYDAY PRACTICES
CONCEPT DEVELOP-MENT
USER PARTICIPATION
INNOVATION MODEL
=
ONLINE FEATURES

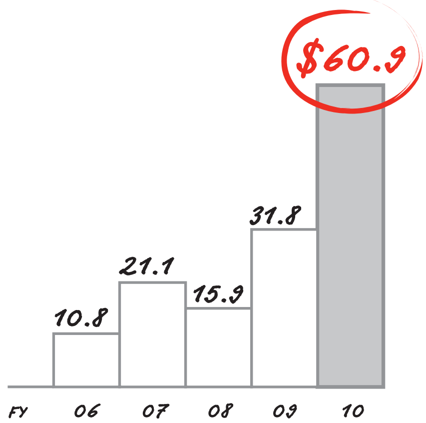
REA GROUP continued to deliver STRONG GROWTH across all its areas of operations



REVENUE ($MILLIONS)



EBITDA ($MILLIONS)



OPERATING CASH FLOW ($MILLIONS)

- Revenue from continuing operations up 16 per cent to $194.3 million.
- EBITDA from continuing operations increased by 25 per cent to $78 million.
- Cash flow from operations increased by 92% to $60.9 million.
- Earnings per share from continuing operations increased 53 per cent to 39.1 cents per share.
- Company declared a fully franked dividend of 16 cents per share to be paid on 15 October 2010.
- Property Listings across all sites excluding the UK increased to 1,550,916 listings as at June 2010, up by 25% compared to June 2009.
- Unique browsers for the websites in Australia, Italy, Luxembourg, Germany, France and Hong Kong increased 37% to 9.3 million in June 2010.

The Group delivered strong growth across all its areas of operations during the year. In addition the Group has invested significantly in new information technology and services culminating with the release in April 2010 of its REA 2.0 platform that allows the company to offer an enhanced range of products and services to our consumers and customers and to further enhance user experience and customer satisfaction.

FIVE YEAR OVERVIEW (FINANCIAL COMPARATIVE DATA IN $'000)

	FY 2006	FY 2007	FY 2008	FY 2009	FY2010	Growth
Revenues from services*	54,921	89,402	133,562	167,795	194,335	16%
Operating expenses	(39,256)	(59,286)	(87,438)	(105,304)	(116,348)	10%
EBITDA	**15,665**	**30,116**	**46,124**	**62,491**	**77,987**	**25%**
EBITDA Margin	29%	34%	35%	37%	40%	
Depreciation and amortisation	(1,766)	(4,230)	(6,404)	(7,348)	(7,088)	-4%
Impairment of goodwill	-	-	-	(6,141)	-	
Impairment of intangibles	-	-	-	(1,854)	-	
EBIT	**13,899**	**25,886**	**39,720**	**47,148**	**70,899**	**50%**
Net finance (expense) / income	(57)	666	488	153	1,064	
Earnings Before Tax	**13,842**	**26,552**	**40,208**	**47,301**	**71,963**	**52%**
Income tax (expense) /benefit	(4,039)	(7,535)	(14,720)	(18,598)	(22,597)	22%
Profit attributed to members	9,803	19,017	25,488	28,703	49,366	
Profit/(loss) from discontinued operations	(3,162)	(8,029)	(9,725)	(63,341)	1,277	
Non-controlling interest (net of taxes)	1,581	4,076	6,581	35,584	14	
Profit attributed to members of parent	**8,222**	**15,064**	**22,344**	**946**	**50,657**	**5,255%**
Employees FTE (excluding UK)	238	409	537	526	526	-%

* Excludes Interest Income

WHO IS REA GROUP?

REA Group owns and operates the leading real estate and commercial property advertising sites in Australia, including its flagship realestate.com.au, as well as international real estate property advertising sites such as the market-leading Italian site, casa.it.

REA Group's business goal is profitable growth in markets where its position is strong and the market size and market dynamics are attractive. Continuous innovation and the delivery of a great user experience – for real estate agents, commercial clients and house hunters alike – are the keys to achieving this goal.

Headquartered in Melbourne, Australia, REA Group aims to deliver effective online advertising solutions through its stable of sites to help real estate agents sell or rent properties and win new listings. As at 30 June 2010, the Group operated fourteen websites in seven countries, with most of the sites being ranked either first or second in their respective markets.

WE ARE ACCOUNTABLE

REA Group is accountable to its shareholders, customers and consumers, as well as to the broader community as a corporate citizen.

REA is focused on creating sustainable and enduring shareholder value through its strategy of profitable growth in markets where it holds a strong competitive position. The success of this strategy over the past financial year is evident in the Group's strong results.

To help provide greater certainty for shareholders, on 19 August 2010, the Board of REA Group announced a dividend policy targeting semi-annual dividends franked to the greatest possible extent.

The Group's responsiveness to customers has increased this year through a range of initiatives including a new account management structure in Australia, a suite of valued-added products designed to help agents achieve their business objectives, and improved reporting tools for agents and vendors.

Customer reports now reveal precisely how property seekers are interacting with realestate.com.au and provide valuable metrics to assess the performance of listings beyond property views or emails received. They also offer easier access to critical performance metrics and valuable insights to help maximise return for agents and their vendors.

The relaunch of realestate.com.au in April followed extensive research and testing of the new website with agents and consumers and following its launch, the site's House Hunter Facebook game attracted almost 5,000 new fans and proved an effective channel for two-way dialogue with consumers.

REA is active in the community and is proud to support organisations that provide affordable housing and shelter. To help REA's people get involved in their local communities, the Group offers all employees one day of paid leave each year to volunteer with a not-for-profit organisation.

During the 2010 financial year, REA Group supported a range of community organisations including youth initiative Reach and the St Vincent de Paul (Vinnies) CEO Sleepout. The Group also fielded a team for the Melbourne Summer Cycle in support of multiple sclerosis.

REA's corporate responsibility extends to the environment and REA Group is a carbon neutral company. Since 2007, through News Limited its majority shareholder, the Group has measured and reported its carbon footprint as part of the One Degree Initiative. Each year, News Corporation has bought and retired offsets equivalent to REA Group Ltd's carbon footprint. For FY2009, the Group's carbon neutral status has been verified by Cventure, a qualified and independent third party company.


REA ROCKS!
CONSUMER FOCUS
STAFF BAKE-OFF...
JANE IS WINNING WITH LAMINGTONS
MARKET EXPANSION
MONITOR
MISSION
EXECUTE
LEAD
ENGAGE
GOALS
ALIGN
ACCOUNTABILITY MODEL
TRUSTWORTHINESS, COMMON SENSE, SENSE, MATURITY, RELIABILITY, DEPENDABILITY, LEADERSHIP, DIRECTION, MANAGEMENT, SUPERVISION, ORGANISATION.

From STRENGTH to STRENGTH

REA Group operates the leading residential and commercial real estate sites in Australia:

realestate.com.au

Realestate.com.au continues its leadership in the Australian market with traffic (unique browsers) to realestate.com.au increasing to 5.8 million (Nielsen) in June 2010 up from 4.5 million in June 2009.

A major business transformation of the technology and site operation of realestate.com.au was undertaken by REA during FY10 with the new REA site successfully launched in April 2010.

Consumer interaction (ROI events) has increased by 39% from July 2009 to July 2010. This changeover was the start of ongoing uplift in investment into the technology platform across the REA Group (Source: Omniture Site Catalyst).

Also during the year the Group entered into partnerships with ebay and Yahoo!7 to provide realestate.com.au content for the portals' real estate channels.

realcommercial.com.au

Realcommercial.com.au is Australia's leading commercial property advertising site, with just under 350,000 unique browsers (Nielsen) and nearly 130,000 property listings in June 2010. Revenue grew by 29% to $19.4 million year on year.

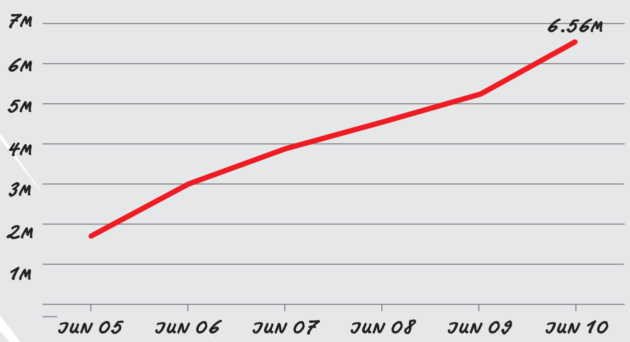
realholidays.com.au

Realholidays.com.au is REA Group's holiday rental site. Aimed at the domestic short term holiday market, realholidays.com.au leverages the high volume of traffic that passes through the realestate.com.au and realcommercial.com.au sites.

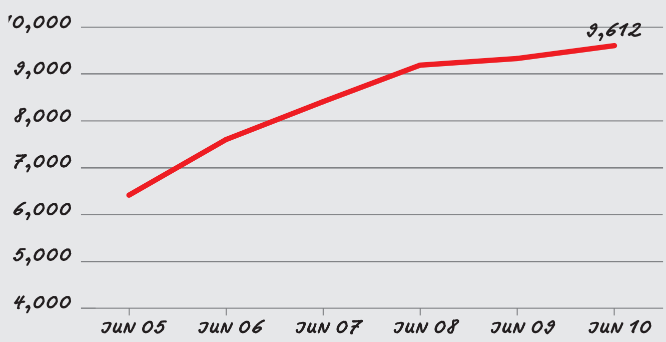
MEDIA ADVERTISING

Increased usage of our sites by consumers delivers greater reach and an enhanced value proposition for advertisers such as media companies or developers. In the 2010 financial year, total media advertising revenue in Australia grew 13% to $41 million.

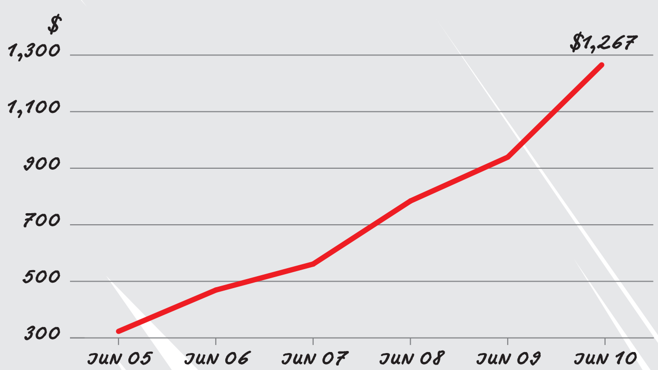
UNIQUE BROWSERS IN AUSTRALIA



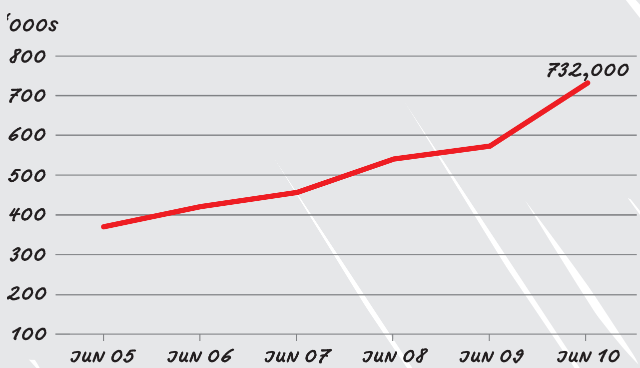
PAYING AGENTS IN AUSTRALIA



AV. MONTHLY REVENUE PER AGENT FOR AUSTRALIA



LISTINGS FOR AUSTRALIA

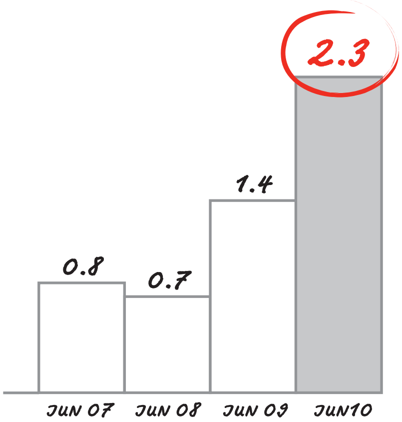


DEVELOPING OUR OVERSEAS BUSINESSES

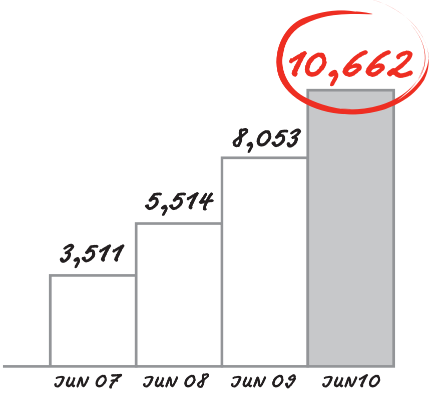
ITALY – CASA.IT CONTINUED TO ACHIEVE STRONG GROWTH IN FY10

casa.it is the leading residential real estate site in the Italian market. It continued to lead the market in FY10, with traffic up on average by 81% to 2.0m unique browsers year on year. Paying agents increased by 32% to 10,662 at 30 June 2010, which is the largest increase in agent numbers for any portal in the history of REA Group.

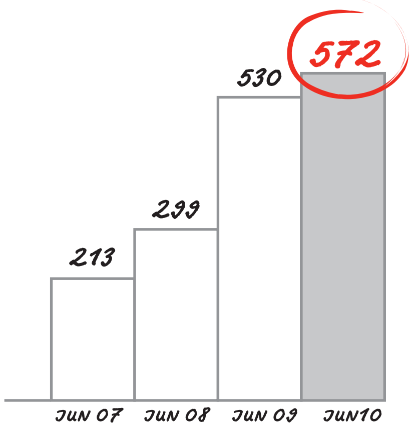
Following the signing of an exclusivity agreement with the Italian real estate institute (FIAIP) in July 2009 to provide joint courses to the real estate market, more than 1,000 real estate agencies attended the training which was offered in 30 Italian cities. In addition exclusivity agreements are in place with the most important Italian portals.



UNIQUE BROWSERS IN ITALY ($MILLIONS)



PAYING AGENTS IN ITALY (NUMBER)



ACTIVE LISTINGSIN ITALY ('000S)

LUXEMBOURG, GERMANY, FRANCE – ATHOME GROUP RECORDS PROFITS

The atHome Group comprises the number one sites in Luxembourg, (athome.lu and atoffice.lu) as well as sites in neighbouring Germany (athome.de) and France (athomealsace.fr and athomelorraine.fr). The operations of atHome group are now profitable (EBIT level) and the Alsace and Lorraine regions of France offer growth opportunities.

HONG KONG – REFOCUSED ON ITS OPERATIONS

In Hong Kong, REA Group publishes the squarefoot.com.hk and Inside Discovery Bay magazines, leaders in their market niche and operates a market-leading residential website targeting English speaking users. During FY10, the Group's Hong Kong business significantly reduced its losses and refocused its operations. In July 2010 a Chinese-language offering was introduced to complement its English-language website, squarefoot.com.hk and associated publications, broadening REA's potential to reach the Hong Kong population.

THAT'S A GREAT IDEA

PASSION EQUALS GROWTH

Across the globe, REA employs over 500 individuals who are passionate about digital media and the opportunity to deliver innovative real estate services to customers and consumers.

In 2010, much of this passion has been directed to the new technology platform which was built from the ground up in under nine months. This technology has impacted all aspects of REA's business and the successful transition reflects the dynamism and expertise of REA's technology and marketing groups as well as the ongoing commitment of its customer service and sales teams.

REA aims to be an employer of choice and has a number of programs in place to recognise and reward individual performance and provide opportunities for career development. As a growing business, an increasing focus for REA is identifying and nurturing future leaders.

In conjunction with leading Melbourne universities, REA is developing a Graduates @ REA program to assist with the recruitment of graduates with a specialised educational background.


WHA DOES PASSION
N TO REA's GROWTH ????
.WE CAN ACHIEVE ANYTHING WE SET OUT TO DO -
WITH PASSION
JENNY WAS HERE!

COLLABORATION IS THE KEY

Digital media delivers new opportunities for collaboration and in 2010 REA Group announced a number of new partnerships to increase the reach of its content and brands.

During the 2010 financial year, realestate.com.au site joined forces with Yahoo!7 to launch the Yahoo!7 real estate channel and announced it would partner with the Commonwealth Bank to develop an augmented reality iPhone application.

More recently, realestate.com.au was announced as the real estate channel partner for ebay.com.au and REA announced a cross-promotional partnership with Singapore's number one real estate site, PropertyGuru, linking the site with realestate.com.au in Australia and squarefoot.com.hk in Hong Kong.


What a lovely surprise! Thanks guys
Great Decorations Tom!
Lovely cake Jenny!

CONTENTS

DIRECTORS' REPORT

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

DIRECTORS

The directors of REA Group Limited in office during the entire financial year and up to the date of this report were as follows:

Mr Richard J Freudenstein (Chairman)

Mr Roger Amos

Ms Kathleen Conlon

Mr Greg Ellis (Managing Director)

Ms Diana Eilert (appointed 30 June 2010)

Mr John D McGrath

Mr John Pittard (appointed 30 June 2010)

Mr Stephen P Rue

Mr Sam R White

Mr Jeremy Philips (until 30 June 2010)

Mr Alasdair MacLeod (until 31 January 2010)

Details of the qualifications, independence status, directors meetings and directors attendance at those meetings for FY10 (including meetings of committees of directors) are disclosed in the Corporate Governance Report on page 27.

COMPANY SECRETARY

Ms Moana Weir BA, LLB(Hons), MAICD was appointed company secretary on 15 December 2008. Ms Weir has 9 years senior management experience in public companies with international operations in the online IT and advertising industries. She holds a BA and Bachelor of Laws Degree (Honours), and is admitted to practice as a barrister and solicitor in the Supreme Court of Victoria, Australia. She is a member of the Australian Institute of Company Directors.

REPORT ON THE BUSINESS

PRINCIPAL ACTIVITIES

The Group's principal activity during the year was the provision of online advertising services, which include:

(a) Online advertising of residential properties for sale and rent

(b) Online advertising of commercial properties for sale and lease

(c) Provision of online display advertising space for advertisers in various industries

(d) Provision of website development services to the real estate industry

(e) Software licensing of estate agent back office solutions

(f) Print publications to advertise properties for sale and rent

(g) Other services

DIVIDENDS – REA GROUP LIMITED

FY10 Dividend

On release of the 2010 accounts, the Directors declared a final ordinary dividend of $20.6 million (16 cents per fully paid share fully franked) to be paid on 15 October 2010 out of retained earnings as at 30 June 2010. The final dividend has not been recognised in the financial statements for the year ended 30 June 2010, but will be in subsequent financial reports. The FY10 dividend is also subject to a Dividend Reinvestment Plan which will allow shareholders to elect to receive fully paid ordinary REA shares at 2.5% discount to the weighted average market price calculated over a nominated period.

FY09 Dividend

A final ordinary dividend of $12.7 million (10 cents per fully paid share fully franked) was paid on 16 October 2009 out of retained earnings at 30 June 2009. At this time the directors also introduced a Dividend Reinvestment Plan which allowed shareholders to elect to re-invest the dividend and receive fully paid ordinary REA shares at a 2.5% discount to the weighted average market price calculated over a nominated period.

REVIEW OF OPERATIONS

The Group delivered strong organic growth across all its areas of operations during the year. In addition the Group has invested significantly in new information technology and services culminating with the release in April 2010 of its REA 2.0 platform that allows the company to offer an enhanced range of products and services to our consumers and customers and to further enhance user experience and customer satisfaction. As at 30 June 2010, the Group operated fourteen websites in seven countries, with most of the sites being ranked either first or second in their respective markets.

The key priorities for FY11 for the Group are:

(a) Engagement with consumers

(b) Development of an active real estate community

(c) Offering customers more flexible products and price offers

(d) Focus on operational excellence

(e) Creation of a team and culture which supports the above priorities

PERFORMANCE INDICATORS

Management and the Board monitor the Group's overall performance, from the implementation of its mission statement and strategic plan through to the performance of the company against operating plans and financial budgets and forecasts. The Board, together with management, have identified key performance indicators (KPI's) that are used regularly to monitor performance.

DYNAMICS OF THE BUSINESS

REA Group Limited primarily operates in the online real estate classified advertising market for residential and commercial property. The three key drivers of advertising revenue for the Group are:

- The number of real estate offices within any particular market, which determines the number of subscriptions purchased
- The number of new and total listings within any particular market, which primarily determines the take up of additional advertising products
- The extent and quality of the consumer interaction with the site measured by the conversion of unique browsers visiting the sites into measurable ROI events (email leads, phone leads, open for inspection inquiries, etc)

The underlying housing market is influenced by certain macro economic factors such as population growth, the unemployment rate, interest rates, international migration, regional population growth, GDP growth, annual house sales growth, and other factors.

DISCONTINUED OPERATIONS

United Kingdom

In April 2009, the Group closed its UK print operations and on 7 August 2009 it sold its online operations. The UK operations are disclosed as discontinued operations in these accounts. Refer to note 9 for detailed disclosure.

United Arab Emirates

The Group sold its operations in UAE with effect from 31 July 2009.

FINANCIAL PERFORMANCE

FY10 continued the strong organic growth demonstrated in FY09 with record Revenue, EBITDA, and EBITDA margin being recorded. Revenue grew by 16% to A$194 million, EBITDA grew by 25% to A$78 million, and EBT increased by 52% to A$72 million on the prior corresponding period.

Financial Comparative Data in $'000	FY 06	FY 07	FY 08	FY 09	FY 10	Growth FY09 to FY10
Revenues from services*	54,921	89,402	133,562	167,795	194,335	16%
Operating (expenses)	(39,256)	(59,286)	(87,438)	(105,304)	(116,348)	10%
EBITDA	**15,665**	**30,116**	**46,124**	**62,491**	**77,987**	**25%**
EBITDA Margin	29%	34%	35%	37%	40%	
Depreciation and amortisation	(1,766)	(4,230)	(6,404)	(7,348)	(7,088)	(4)%
Impairment of goodwill	-	-	-	(6,141)	-	
Impairment of intangibles	-	-	-	(1,854)	-	
EBIT	**13,899**	**25,886**	**39,720**	**47,148**	**70,899**	**50%**
Net finance (expense)/income	(57)	666	488	153	1,064	
Earnings Before Tax (EBT)	**13,842**	**26,552**	**40,208**	**47,301**	**71,963**	**52%**
Income tax (expense)	(4,039)	(7,535)	(14,720)	(18,598)	(22,597)	22%
Profit/(loss) from discontinued operations#	(3,162)	(8,029)	(9,725)	(63,341)	1,277	
Non-controlling interest (net of taxes)	1,581	4,076	6,581	35,584	14	
Profit attributable to members of parent	**8,222**	**15,064**	**22,344**	**946**	**50,657**	**5,255%**
Employees (FTE) excluding UK	238	409	537	526	526	-%

* Excludes Interest Income

\# Discontinued operations excluded for FY06, FY07 and FY08 for comparative purposes

KEY FINANCIAL HIGHLIGHTS

The key financial highlights for FY10 included:

- Revenue from continuing operations of $194.3 million, up by 16 per cent over the last financial year. These very strong results were driven by good performance across the entire product portfolio.
- Operating expenses from continuing operations of $116.3 million, up by 10 per cent over the last financial year. The key drivers of the increase in operating expenses are employee costs, consultants, and technology costs linked to the increased rate of innovation.
- EBITDA from continuing operations of $78 million, up by 25 per cent over the last financial year. The Group has increased its EBITDA margin from 37 per cent to 40 per cent.
- Property Listings across all sites excluding the UK increased to 1,550,916 listings as at June 2010, up by 25% compared to June 2009.
- Paying Agents subscribing to the websites in Australia, Italy, Luxembourg, Germany, France, and Hong Kong increased to 21,225 agents as at 30 June 2010, up by 15% compared to June 2009.
- Unique Browsers for the websites in Australia, Italy, Luxembourg, Germany, France, and Hong Kong, increased from 6.8 million as in June 2009 to 9.3 million in June 2010.

KEY FINANCIAL HIGHLIGHTS (CONTINUED)

The group operates across a number of countries. Key operational highlights on a country basis are as follows:

Country operations in $'000	Revenue	EBITDA	Margin
2010			
Australia	178,227	92,206	52%
Italy	8,881	(6,637)	(75)%
Other overseas countries	7,227	744	10%
Unallocated overhead	-	(8,326)	-%
Total continued operations	**194,335**	**77,987**	**40%**
2009			
Australia	150,136	83,433	56%*
Italy	8,540	(3,691)	(43)%
Other overseas countries	9,119	(5,222)	(57)%
Unallocated overhead	-	(12,029)	-%
Total continued operations	**167,795**	**62,491**	**37%**

* During FY09, REA restructured its operations. Starting from 1 July 2009, REA now allocates overhead costs more directly to its operations leading to a drop in unallocated expenses from $12.0 million to $8.3 million as well as a drop in EBITDA margins from 56% to 52% for the Australia operations. Had the same allocation principle been applied in FY09, the EBITDA margin for FY09 would have been 52% rather than 56%.

Australia

The Australian business is one the key drivers of value creation within the Group.

Australia			
	Online Advertising	Residential properties	realestate.com.au property.com.au realholidays.com.au homeguru.com.au ozhomevalue.com.au
		Commercial properties	realcommercial.com.au
	Agent Solutions	Real estate agents	Hub Online Web Design Services

In Australia, REA Group operates the leading residential and commercial real estate sites, realestate.com.au and realcommercial.com.au, and holiday rental site realholidays.com.au. Highlights during the period include:

- Revenues are up by 19% to $178,227 at an EBITDA margin of 52%
- Paying agents up from 9,332 (June 2009) to 9,612 (June 2010); estimated market share of approximately 95 percent of residential agents.
- Average revenue per agent (ARPA) up by 22% from $1,040 in June 2009 to $1,267 in June 2010.
- Unique browsers across all Australian sites were up from 5.2m (June 2009) to 6.6m (June 2010) – Source: Nielsen.
- Partnership with ebay and Yahoo!7 to provide realestate.com.au content for the portals' real estate channels.

REA's flagship brand realestate.com.au is the largest part of the Australian operations.

realestate.com.au	FY10	FY09	Growth
Revenue	$108.4m	$91.0m	19%
Depth revenues as % of total	42%	37%	
Subscriptions (June)	8,875	8,477	5%
Unique Browsers (June)	5.8m	4.5m	29%

During FY2010, REA undertook a major business transformation of the technology and site operation of realestate.com.au. The new REA site was successfully launched in April 2010.

Consumer interaction (ROI events) has increased by 39% from July 2009 to July 2010. This changeover was the start of ongoing uplift in investment into the technology platform across the REA Group (Source: Omniture Site Catalyst).

Overseas Businesses

Overseas			
Italy	Online Advertising	Residential Properties	casa.it
Luxembourg	Online Advertising	Residential Properties Commercial Properties	athome.lu atoffice.lu
	Print Advertising	Residential Properties	atHome magazines
France, Germany	Online Advertising	Residential Properties	athomeAlsace.fr (France) athomeLorraine.fr (France) athome.de (Germany)
Hong Kong	Online Advertising	Residential Properties	squarefoot.com.hk (English and Chinese)
	Print Advertising	Residential Properties	Squarefoot (English) Property Post (Chinese) Inside Discovery Bay
New Zealand		Commercial Properties	realcommercial.co.nz

Italy
casa.it is the leading residential real estate site in the Italian market. REA has had a 69.4% interest in casa.it since February 2007, with the remaining 30.6% owned by SkyItalia. During the year ended 30 June 2010 casa.it has continued to achieve strong growth:

- As at 30 June 2010, 10,662 Italian agents subcribed to casa.it
- Subscribers are up by 32% compared to FY09 which is the largest increase in agent numbers for any portal in the history of REA Group.
- The new product offering (subscriptions with monthly rather than annual billing) was introduced in September 2009. It had a temporary effect of lowering revenue growth in FY10 – however, a like-for-like comparison excluding this effect would see revenue increase by approximately 70% year on year.
- Significant investments in marketing and sales operations were made.
- Traffic is up on average by 81% to 2.0m unique browsers year on year.
- Exclusivity agreements are in place with the most important Italian portals.
- Exclusivity agreement was signed with the Italian real estate institute (FIAIP) to provide joint courses to the real estate market – more than 1,000 real estate agencies attended the training which was offered in 30 Italian cities.

Luxembourg, Germany, France
The atHome Group comprises the number one sites in Luxembourg, athome.lu and atoffice.lu as well as sites in neighbouring Germany (athome.de) and France (athomealsace.fr and athomelorraine.fr). REA acquired the whole of the atHome Group in February 2007. REA Group's operations in Luxembourg and France are now profitable (EBIT level) and the Alsace and Lorraine regions of France offer considerable growth opportunities.

Hong Kong
In September 2007, REA acquired the Squarefoot group which consists of two print publications in the real estate and life style segments targeting the English speaking community of Hong Kong. Since then, the website squarefoot.com.hk has been launched to address the same market. During FY10, the Group's Hong Kong business significantly reduced its losses, refocused its operations, and introduced a Chinese-language offering to complement its market-leading English-language website and associated publications, broadening REA's potential to reach the Hong Kong population.

In addition, REA successfully completed the sale of its UK and UAE operations during the first half of FY10.

Unallocated Overhead
Unallocated overhead includes the costs of certain central head office functions. In the first half of FY2010, REA changed the allocation method to allocate overhead costs more directly to operations following the divestiture of its UAE and UK operations.

REVIEW OF FINANCIAL CONDITION

Cash from operations
During the financial year, the Group delivered $60.9 million (2009: $31.8 million) in operating cash flows. Apart from payment of a first-time cash dividend in October 2009 of $4.0 million and increased investment into the new software platform, most of the generated funds increased the cash reserves of the Group.

Capital structure
At the end of the year, 128,439,366 (2009: 127,255,057) ordinary shares were outstanding. The Group is equity financed as at the date of this report with an undrawn credit line of $10 million for short term financing needs, which will expire in October 2010 (2009: $14 million).

Treasury policy
Excess funds are currently invested in an overnight professional fund and term deposit accounts.

Liquidity and Funding
The company has sufficient funds to finance its ongoing operations.

Risk Management
The Group takes a proactive approach to risk management. The Board is responsible for ensuring that risk and opportunities are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the Board. The mechanisms for risk management include approval of a strategic plan by the Board, the approval of operating budgets and their regular review against actual financial data. (Refer also note 3.)

INVESTMENT FOR FUTURE PERFORMANCE

The Group will continue to strengthen and grow its businesses in both online advertising and in other related sectors of the real estate industry.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of the Group during the financial year were as follows:

- Sale of interest in the UK business.
- Sale of interest in the UAE business.
- Launch of the new technology platform for realestate.com.au with an enhanced set of products

EVENTS AFTER THE BALANCE DATE

As at the date of this report, the directors are not aware of any circumstance that has arisen since 30 June 2010 that has significantly affected, or may significantly 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.

ENVIRONMENTAL REGULATION

The Group is complying with all environmental regulations and is not subject to any particular environmental requirements.

REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for directors and executives of REA Group Limited 'the company' and the Group is in accordance with the requirements of the Corporations Act 2001 and its regulations.

Remuneration philosophy

The performance of the company depends upon the quality of its directors and executives. To prosper, the company must attract, motivate and retain highly skilled directors and executives. To this end, the company embodies the following principles in its remuneration framework:

- Provide competitive rewards to attract high calibre executives
- Significant portion of executive remuneration 'at risk', dependent upon meeting pre-determined performance benchmarks
- Establish appropriate, demanding performance hurdles in relation to variable executive remuneration

Remuneration and Nomination Committee

The Remuneration and Nomination Committee of the Board of Directors of the company is responsible for determining and reviewing compensation arrangements for the directors, the Chief Executive Officer (CEO) and the senior management team. The committee assesses the appropriateness of the nature and amount of remuneration of directors and senior managers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum shareholder benefit from the retention of a high quality board and executive team.

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and senior manager remuneration is separate and distinct.

Non-executive director remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting held in November 2009 when shareholders approved an aggregate remuneration of $400,000 per year. The amount of the aggregate remuneration sought to be approved by shareholders is reviewed annually. In FY10 the total amount paid to independent non-executive directors was $280,079. This amount includes superannuation and fees paid to those directors of the Group in their capacity as members of the Board and its committees. Non-executive directors do not receive performance related compensation. The remuneration of non-executive directors for the period ending 30 June 2010 is detailed in Table 1 of this report.

Senior manager and executive director remuneration

Objective

The company aims to reward executives with a level/mix of remuneration commensurate with their position and responsibilities within the company and so as to:

- Reward executives for performance against targets set by reference to appropriate benchmarks;
- Align the interests of executives with those of shareholders;
- Link reward with the strategic goals and performance of the company; and
- Ensure total remuneration is competitive by market standards.

Structure

Remuneration costs consist of the following key elements:

- Fixed remuneration
- Variable remuneration

Table 2 gives details the variable component of the five most highly remunerated senior managers.

Fixed Remuneration

Objective

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market. Fixed remuneration is reviewed annually. All contracts for new senior management have to be approved by the Remuneration and Nomination Committee. In addition, deviations from the budgeted salary increases also require approval.

Structure

Senior managers are given the opportunity to receive part of their fixed (primary) remuneration in fringe benefits such as motor vehicles and education expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the company. This fixed remuneration component of the five most highly remunerated senior managers is detailed in Table 2.

REMUNERATION REPORT [AUDITED] (CONTINUED)

Variable Remuneration – Short Term Incentives = STI

Objective

The objective of the STI program is to link the achievement of the company's operational targets with the remuneration received by the executives charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the senior managers to achieve the operational targets and ensure that the cost to the company is reasonable in the circumstances.

Structure

Actual STI payments granted to each senior manager depends on the extent to which specific operating targets set at the beginning of the financial year are met. The operational targets consist of a number of Key Performance Indicators (KPI's) covering both financial and non-financial measures of performance. Typically included are measures such as contribution to revenues, profitability, customer service, risk management, product management, and leadership/ team contribution. In terms of the Group's financial KPIs, senior managers are entitled to receive an STI payment where the audited Group Revenue and EBIT meets or exceeds 85% of the agreed Revenue and EBIT budget set by the Board, and individual performance KPIs are also satisfied. Where senior management does not achieve a minimum 85% Revenue and EBIT as set in the budget, no STI payment is payable. Payment is made at full STI contract value when 100% of budget is achieved.

Where senior management has exceeded budget, the proportion of STI payable for over achievement against the Group financial KPIs is increased on the basis of defined payout percentages generated from the incremental Revenue and EBIT above budget. Payments made are usually delivered as a cash bonus.

STI bonus for FY09 and FY10

STI cash bonuses for FY09 of $502,749 were accrued in FY09 and paid in FY10 financial year. The maximum STI cash bonus for FY10 of $1,714,206 has been accrued in FY10 on the basis that it is probable that all executives will meet their respective KPI's for the period. Any adjustments between the actual amounts and the amounts accrued will be adjusted in FY11. The minimum amount of the STI cash bonus assuming that no executives meet their respective KPIs for the 2010 financial year is nil.

Variable Remuneration - Long Term Incentives = LTI

Objective

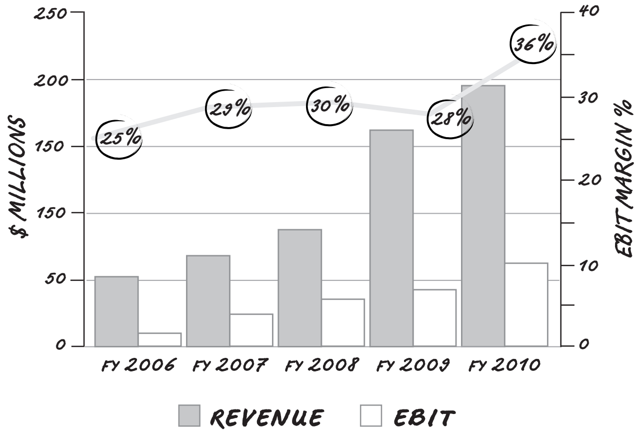
The objective of the LTI plan is to link the achievement of the company's long term targets with the remuneration received by the executives charged with meeting those targets. The total potential LTI available is set at a level so as to provide sufficient incentive to the senior manager to achieve the long term targets and such that the cost to the company is reasonable in the circumstances.

Structure

Planned LTI payments granted to each senior manager depends on the extent to which specific targets set at the beginning of plan are met. The targets are revenue and profitability related targets in the third year after the initiation of the plan. Payments made are usually delivered as rights to company shares. The company does not encourage entering into arrangements to protect the value of unvested LTI awards. This includes entering into contracts to hedge the exposure to rights of shares granted as part of their remuneration package.

Group performance

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



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

	FY06	FY07	FY08	FY09	FY10
Earnings per share (cents)	7.2	11.8	17.6	0.7	39.5
Earnings per share from continuing operations (cents)	8.9	18.1	21.4	25.6	39.1

Participating in Employee Share Purchase Plan

Executives (and all other employees) can also participate in a company sponsored share purchase plan that purchases shares on the market and is open to every employee of REA who meets certain basis criteria, the benefit of which is capped at a maximum of $150 per person.

Managing Director & CEO Employment Contract

Mr Greg Ellis was appointed as Chief Executive Officer on 8 September 2008, and subsequently appointed as Managing Director on 23 September 2008. Mr Ellis' contract provides for fixed remuneration of $600,000 per annum inclusive of superannuation and was subject to an annual review which led to a 3% increase for FY10. It also provides for a combination of long and short-term incentives that are tied to performance. In addition to his fixed term remuneration, Mr Ellis is entitled to participate in the STI plan which is dependent on his individual performance up to a maximum of $300,000 per annum, as well as Group performance subject to the Group KPI's, as described earlier on this page. Mr Ellis is also eligible each year for $200,000 of performance share rights that vest after three years and are contingent upon achievement of the long-term business plan of the REA Group.

REMUNERATION REPORT [AUDITED] (CONTINUED)

Directors

The remuneration for Directors (including the Managing Director and CEO) is set out in Table 1 below:

Table 1

Directors	Short-term employee benefits				Share-based payments		Performance Related
	Salary and fees $	STI Cash bonus $	Super-annuation $	Long service leave $	LTIP*	Total $	% of total
2010							
Non-executive							
Mr Roger Amos	75,596	-	6,804	-	-	82,400	0%
Ms Kathleen Conlon	75,596	-	6,804	-	-	82,400	0%
Mr John McGrath	66,147	-	5,953	-	-	72,100	0%
Mr Sam White	39,614	-	3,565	-	-	43,179	0%
Executive							
Mr Greg Ellis	603,020	885,560	14,460	10,760	133,334	1,647,134	62%
2009							
Non-executive							
Mr Roger Amos	76,453	-	6,873	-	-	83,326	0%
Ms Kathleen Conlon	67,278	-	6,070	-	-	73,348	0%
Mr John McGrath	64,220	-	5,780	-	-	70,000	0%
Executive							
Mr Greg Ellis	448,836	239,808	40,395	-	66,667	795,706	39%
Mr Simon Baker[(#)]	775,009	70,459	103,092	(42,689)	84,929	990,800	16%

*Long Term Incentive Plan

#Until 4 August 2008. Salary and fees includes $577,982 of Eligible Termination Payments.

Director's fees are paid only to independent or executive directors. All other directors, not being independant, did not receive any directors' fees during the financial period.

Executives

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. Following restructures to the senior management team and the decision to sell the UK and Dubai operations early in FY10, the following FY09 KMP were no longer deemed to hold KMP positions: Mr Digregorio, Mr Pride and Ms Kent. The KMP for the year ended 30 June 2010 were:

Mr Greg Ellis	Chief Executive Officer
Mr Georg Chmiel	Chief Financial Officer
Mr Daniel Oertli	Chief Information Officer
Mr Daniele Mancini	Country Manager – Italy

REMUNERATION REPORT [AUDITED] (CONTINUED)

There were no changes to KMP after reporting date and before the date the financial report was authorised for issue.

Details of the remuneration are set out in Table 2 below for the key management persons identified above and including the five highest paid executives for the year ended 30 June 2010 and 30 June 2009. Mr Ellis is included in Table 1 above.

Table 2

Executives	Short-term employee benefits					Share-based payments	Total	Performance Related
Name	Salary and fees $	Cash bonus $	Other $	Super-annuation $	Long service leave $	LTIP* $	$	% of total
2010								
Mr Georg Chmiel	356,030	240,219	-	18,467	7,874	(14,355)[1]	608,235	37%
Mr Doug Blue[2]	458,667	19,670	-	13,353	(3,989)	-	487,701	4%
Mr Daniele Mancini	436,118	360,139	41,900	-	-	37,000	875,157	45%
Mr Daniel Oertli	323,444	228,288	-	17,142	5,478	75,000	649,352	47%
2009								
Mr Georg Chmiel	330,000	59,000	-	36,000	6,595	153,145	584,740	36%
Mr Shaun Digregorio	320,000	78,666	-	36,900	12,419	122,516	570,501	35%
Mr Daniele Mancini[3]	168,455	22,818	-	3,251	-	-	194,524	12%
Mr Daniel Oertli[4]	121,218	29,278	-	10,910	-	-	161,406	18%
Mr Jamie Pride	212,209	53,333	12,000	16,154	-	(3,090)	290,606	17%
Ms Gillian Kent	325,239	73,179	-	53,008	-	72,484	523,910	28%

* Long Term Incentive Plan ("LTIP") - see note 36

1 Net effect of performance rights granted in FY10 of $100,000 and cancelled of $114,355 under Plan 1a and Plan1b.

2 Until 26 March 2010. Salary and fees includes $250,585 of Eligible Termination Payments.

3 Started 1 April 2009.

4 Started 17 February 2009.

		Terms and Conditions for each Performance Right						Vested	
Current outstanding performance plans	Granted Number	Grant date	Fair value per right at grant date	Exercise price per right	Expiry date	First exercise date	Last Exercise date	No.	%
Mr Greg Ellis	45,455	1 July 2008	4.40	0	n/a	1 July 2011	30 September 2011	-	0.0
Mr Georg Chmiel	34,091	1 July 2008	4.40	0	n/a	1 July 2011	30 September 2011	-	0.0
Mr Daniel Oertli	17,045	1 July 2008	4.40	0	n/a	1 July 2011	30 September 2011	-	0.0
Mr Daniele Mancini	8,409	1 July 2008	4.40	0	n/a	1 July 2011	30 September 2011	-	0.0
Mr Greg Ellis	34,965	1 July 2009	5.72	0	n/a	1 July 2012	30 September 2012	-	0.0
Mr Georg Chmiel	26,224	1 July 2009	5.72	0	n/a	1 July 2012	30 September 2012	-	0.0
Mr Daniel Oertli	13,112	1 July 2009	5.72	0	n/a	1 July 2012	30 September 2012	-	0.0
Mr Daniele Mancini	6,469	1 July 2009	5.72	0	n/a	1 July 2012	30 September 2012	-	0.0
Total	**195,823**							-	

The terms 'director' and 'officer' have been treated as mutually exclusive for the purposes of this disclosure. The elements of emoluments have been determined on the basis of the cost to the company and the consolidated entity.

Options granted as part of remuneration

Other than as part of the Long Term Incentive Plan, there were no other options granted as part of remuneration for the year ended 30 June 2010.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

For FY10, the company paid premiums totalling $48,365 in respect of contracts insuring all the directors and officers of REA Group Limited against costs incurred in defending proceedings for conduct involving:

1. a wilful breach of duty; or
2. a contravention of Sections 182 or 183 of the Corporations Act (2001), as permitted by section 199B of that Act.

REA Group Limited has entered into a standard form deed of indemnity, insurance and access with the independent directors against liabilities they may incur in the performance of their duties as directors of REA Group Limited, except liabilities to REA Group Limited or a related body corporate, liability for a pecuniary penalty or compensation order under the Corporations Act, and liabilities arising from conduct involving a lack of good faith. REA Group Limited is obliged to maintain an insurance policy in favour of independent directors for liabilities they incur as directors of REA Group Limited and to grant them a right of access to certain company records. In addition, each Director is indemnified, as authorised by the Constitution, on a full indemnity basis and to the full extent permitted by law, for all losses or liabilities incurred by the Director as a director of a member of the Group. The indemnity operates only to the extent that the loss or liability is not covered by insurance.

Up to 11 November 2005 (when News Limited increased its share in REA Group Limited to a controlling shareholding) the company held a Directors' and Officer's Liability Insurance Policy on behalf of current directors and officers of REA Group Limited and its controlled entities. On 11 November 2005, this policy was converted into a seven year run-off cover. From November 2005, REA Group Limited has been covered by D&O insurance for the News Corporation Group of companies. This cover excludes claims brought by major shareholders (News Limited). In addition, during the current financial year REA Group Limited took out further D&O Insurance to cover certain exclusions in the existing policy.

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 and/or the Group are important.

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

The Board of directors has considered the position and, in accordance with advice received from the audit 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 committee to ensure they do not impact the impartiality and objectivity of the auditor
- 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 audit and non-audit services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated	
	2010 $	2009 $
Audit and review of financial reports	**314,300**	330,000
Related practices audit and review of financial reports	**29,300**	166,000
Total remuneration for audit services	**343,600**	**496,000**
Due diligence and other assurance services	**49,000**	46,370
Total remuneration for other assurance services	**49,000**	**46,370**

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 26.

ROUNDING OF AMOUNTS

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

COMPLIANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

The REA Group has complied with IFRS as set out in note 2(a).

AUDITOR

Ernst & Young continues in office in accordance with section 327 of the *Corporations Act 2001*.

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

Mr Richard J Freudenstein
Director
Melbourne, 19 August 2010

AUDITOR'S INDEPENDENCE DECLARATION

ERNST & YOUNG

Ernst & Young Building
8 Exhibition Street
Melbourne VIC 300 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
www.ey.com/au

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF REA GROUP LIMITED

In relation to our audit of the financial report of REA Group Limited for the financial year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

David McGregor
Partner
Melbourne, 19 August 2010

Liability limited by a scheme approved
under Professional Standards Legislation

CORPORATE GOVERNANCE STATEMENT

The Corporate Governance arrangements for the Group (REA) are set by the Board having regard to the particular circumstances of the Group and the best interests of shareholders. REA is committed to best practice in corporate governance where these practices are appropriate and add value to REA. The Board and management of REA maintain a constant interest in governance, including assessing the guidelines of regulatory and investor bodies and considering other national and international practices. This leads to the governance arrangements being reviewed regularly to ensure compliance with legal requirements, to meet the expectations of shareholders and to best address the circumstances of REA. During 2010, all existing Board and Committee Charters were reviewed and revised by the Board as deemed necessary.

This statement also provides information on other governance practices adopted by REA Group Limited. This statement is current as at the date of the 2010 Directors' Report and, unless otherwise indicated, the information was true for the whole of the financial year commencing on 1 July 2009. The information provided below contains references to the REA web site (www.rea-group.com/investors). This statement should be read in conjunction with this web site and with the Directors' Report.

AUSTRALIAN SECURITIES EXCHANGE (ASX) LISTING RULES

ASX Listing Rules require the company to report on the extent to which it has followed the Corporate Governance Recommendations contained in the ASX Corporate Governance Councils' Principles and Recommendations. Details of REA's compliance with ASX Recommendations are set out in the table below.

Recommendation		Compliance
Section 1		
1.1	*Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions* The Board has adopted a Charter that details the functions and responsibilities of the Board, which is available on the REA Group web site. Management of REA's day-to-day operations is undertaken by the Managing Director and Chief Executive Officer, subject to specified delegations of authority approved by the Board. The Board has also adopted the practice of formal letters of appointment for all new directors. The letter sets out the key terms and conditions of the director's appointment.	✓
1.2	*Companies should disclose the process for evaluating the performance of senior executives* The Remuneration Committee oversees the performance and determines performance assessment of senior executives. For all line managers and staff, a formal performance review framework is in place to monitor outcomes, set KPI's and review achievements against set goals.	✓
Section 2		
2.1	*A majority of the Board should be independent directors* The Board did not have a majority of independent directors during the year. Due to the size of the company, and the strategic relationships, the directors have determined that it is inappropriate to increase the number of directors to a size where there is a majority of independent directors at all times. This decision does not however limit the size of the Board, nor preclude the appointment of additional directors. The matters and thresholds considered by the Board in assessing the independence of directors are set out in the Board's Charter, which is available on REA's web site. The definition of independent director does not depart from that recommended by the ASX Corporate Governance Council. Materiality thresholds have been determined by the Board. The Board makes an assessment of the independence of each director upon appointment and in August of each year. Directors are required on an ongoing basis to disclose to the Board relevant personal interests and conflicts of interest. Upon any such disclosure, a director's independence is reassessed.	✗
2.2	*The Chairperson should be an independent director* The current chairperson, Richard J Freudenstein, is not assessed as independent. His appointment is seen as a reflection of his significant experience and industry knowledge.	✗
2.3	*The roles of the Chairperson and Chief Executive Officer should not be exercised by the same individual* Mr Richard Freudenstein is the current chairperson. Mr Greg Ellis is the current Chief Executive Officer.	✓
2.4	*The Board should establish a nomination committee* The Board has established a Remuneration and Nomination Committee that operates under a charter approved by the Board. In accordance with Recommendation 2.4 the committee: • Consists of a majority of independent directors • Is chaired by an independent director • Has at least 3 members A copy of the charter is available on REA's website.	✓
2.5	*Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors* The Board of Directors initiated a formal review of the individual Director's and the performance of the Board and its committees during 2010. This review process will commence in FY2011.	✓

Recommendation		Compliance
Section 3		
3.1	*Companies should establish a code of conduct and disclose the code or a summary of the code* REA has adopted a Code of Conduct to guide the standards of ethical behaviour expected of REA directors and employees in the performance of their work. A copy of the REA Code of Conduct is available on REA's website.	✓
3.2	*Companies should establish a policy concerning trading in company securities by directors, senior executives and employees and disclose the policy or a summary of that policy* The REA Share Trading Policy is available on REA's website.	✓
Section 4		
4.1	*The Board should establish an audit committee* The Board has established an Audit Risk and Compliance Committee that operates under a charter approved by the Board.	✓
4.2	*The audit committee should be structured in accordance with Recommendation 2.4:* In accordance with Recommendation 2.4 REA's audit committee: • Consists of only non-executive directors • Consists of a majority of independent directors • Is chaired by an independent chair, who is not chair of the Board • Has at least three members	✓
4.3	*The Audit Committee should have a formal charter* A copy of the Charter of the Audit Committee is available on REA's website.	✓
Section 5		
5.1	*Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance and disclose those policies or a summary of those policies* The Board has adopted the REA Market Disclosure Policy, which sets out the key obligations of the Board and senior management to ensure that REA complies with its disclosure obligations under the ASX Listing Rules and the Corporations Act 2001 (Cth). A copy of REA's Market Disclosure Policy is available on REA's website.	✓
Section 6		
6.1	*Companies should design a communications policy for promoting effective communication with shareholders and encouraging participation at general meetings and disclose their policy or a summary of that policy* The Board has adopted a REA Shareholder Communications Policy, a copy of which is posted on REA's website.	✓
Section 7		
7.1	*Companies should establish policies for oversight and management of material business risks and disclose a summary of those policies* The Audit Risk and Compliance Committee has included within its terms of reference, a section dealing with the monitoring and establishment of policies regarding risk management and overseeing.	✓
7.2	*The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks* REA has adopted a risk management framework throughout its operations to proactively and systematically identify, assess and address events that could potentially impact upon business objectives. Under the Risk Management Policy, which supports the risk management framework, there is regular reporting to the Board and the Audit Risk and Compliance Committee. REA has an internal audit function which reports to the Audit Risk and Compliance Committee and the Managing Director and Chief Executive Officer. The Audit Risk and Compliance Committee oversees the internal audit function and the appointment of the Group Assurance Manager. The Group Assurance Manager meets with both the Chairman of the Audit Committee and the Audit Committee as a whole in the absence of management. This function has full access to personnel and information and is independent of the external auditor.	✓
7.3	*The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks* The Board receives a written declaration prior to the acceptance of the annual financial statements.	✓

Recommendation		Compliance
Section 8		
8.1	*The Board should establish a remuneration committee* The Board has established a Remuneration and Nomination Committee that operates under a charter approved by the Board. In accordance with Recommendation 8.1 the committee: • Consists of a majority of independent directors • Is chaired by an independent director • Has at least 3 members A copy of the charter is available on REA's website.	✓
8.2	*Companies should clearly distinguish the structure of the non-executive directors' remuneration from that of executive directors and senior executives* As discussed in the Remuneration Report contained in the Directors' Report, 100% of the remuneration of non-executive directors is fixed and non-executive directors do not participate in any incentive plan. Remuneration paid to executives in 2010 financial year included fixed and variable components, as detailed in the Remuneration Report.	✓

Various corporate governance practices are discussed within this statement. For further information on corporate governance policies adopted by REA Group Limited refer to our website www.rea-group.com/corporategovernance.

STRUCTURE OF THE BOARD

The directors in office at the date of this report are:

Name	Position	Period in office at 30 June 2010
Mr John D McGrath	Non-executive director	9 years, 9 months
Mr Sam R White	Non-executive director	7 years, 10 months
Mr Stephen P Rue	Non-executive director	6 years, 10 months
Mr Roger Amos	Non-executive director	4 years
Mr Richard J Freudenstein	Chairman, Non-executive director	3 years, 7 months
Ms Kathleen Conlon	Non-executive director	3 years
Mr Greg Ellis	Managing Director/CEO	1 year 9 months
Ms Diana Eilert	Non-executive director	0 months
Mr John Pittard	Non-executive director	0 months

For information on the skills, experience and expertise of the directors, please refer to pages 31 to 33 of this report. Details of the number of Board Meetings and the attendance of the directors can be found on page 33 of this report.

DIRECTOR INDEPENDENCE

Directors of REA Group Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

In the context of director independence, "materiality" is considered from both the company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the director in question to shape the direction of the company's strategy. In accordance with the definition of independence above, and the materiality thresholds set, the following directors of REA Group Limited are considered to be independent:

- Mr Roger Amos
- Ms Kathleen Conlon
- Mr John D McGrath (since 16 September 2009)
- Mr Sam R White (since 30 June 2009)

There are procedures in place, agreed by the Board, to enable Directors, in furtherance of their duties, to seek independent professional advice at the company's expense. The Board's prior consent to obtaining such advice is required. The Board considers the appointment or retirement of directors, where appropriate, and with regard to the size of the company. The director concerned does not participate in the decision.

BOARD FUNCTIONS

The Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

To ensure that the Board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of directors and for the operation of the Board.

The responsibility for the operation and administration of the Company is delegated, by the Board, to the CEO and the executive management team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the CEO and the executive management team.

Whilst at all times the Board retains full responsibility for guiding and monitoring the Company, in discharging its stewardship it makes use of sub-committees. Specialist committees are able to focus on a particular responsibility and provide informed feedback to the Board.

To this end the Board has established the following committees:

- Audit Risk and Compliance
- Nomination and Remuneration

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risk identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved including:

- Board approval of a strategic plan designed to meet stakeholders' needs and manage business risk;
- Ongoing development of the strategic plan and approving initiatives and strategies designed to ensure the continued growth and success of the entity; and
- Implementation of budgets by management and monitoring progress against budget - via the establishment and reporting of both financial and non financial key performance indicators.

Other functions reserved to the Board include:

- Approval of the annual and half-yearly financial reports;
- Approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- Ensuring that any significant risks that arise are identified, assessed, appropriately managed and monitored;
- Reporting to shareholders.

AUDIT RISK AND COMPLIANCE COMMITTEE

The Board has established an Audit Risk and Compliance Committee that operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information as well as non-financial considerations such as benchmarking of operational key performance indicators.

The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the consolidated entity to the Audit Risk and Compliance Committee.

The committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in all financial reports. All members of the Audit Risk and Compliance Committee are non-executive directors.

The members of the Audit Risk and Compliance Committee during the year and up to the date of this statement were:

- Mr Roger Amos (Chairman)
- Ms Kathleen Conlon
- Mr Stephen P Rue

Qualifications of Audit Risk and Compliance Committee members

- Mr Roger Amos was a senior partner in the KPMG Information, Communication, and Entertainment Group of Assurance and Risk Advisory Services and was a partner with KPMG for 25 years.
- Ms Kathleen Conlon is a recognised thought leader in strategy and business improvement, and has advised leading companies across a range of industries and countries.
- Mr Stephen P Rue, the Chief Financial Officer of News Limited, has extensive financial experience in financial aspects of the media industry and the accounting profession.

For details of the number of meetings of the Audit Risk and Compliance Committee held during the year, and the attendees at those meetings, refer to Meetings of Directors on page 33. The committee meets at least twice a year with the external auditors to discuss the results of their work, fee arrangements and other work performed. To ensure that the auditor remains independent at all times, all non audit work is authorised by the Audit Risk and Compliance Committee.

REMUNERATION AND NOMINATION COMMITTEE

The Board has established a Remuneration and Nomination Committee, which meets at least once annually, to ensure that the Board continues to operate within the established guidelines, including when necessary, selecting candidates for the position of director. The Remuneration and Nomination Committee comprises non-executive directors.

This Committee comprised the following members:

- Ms Kathleen Conlon (Chairman)
- Mr Roger Amos
- Mr John D McGrath
- Mr Sam R White
- Mr Richard J Freudenstein

For details on the amount of remuneration and all monetary and non-monetary components for each of the five highest paid executives during the year and for the directors, refer to the Remuneration report in the Directors' Report. In relation to the payment of bonuses, options and other incentive payments, discretion is exercised by the Board, having regard to the overall performance of the company and the performance of the individual during the period. There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors. The Remuneration and Nomination Committee is responsible for establishing and maintaining an appropriate framework for remuneration issues within the company. This function includes the determination of remuneration policies and of executives' remuneration based on individual performances and the financial and operating performance of the company.

For details on the number of meetings of the Remuneration and Nomination Committee held during the year and the attendees at those meetings, refer to Meetings of Directors on page 33.

RISK

The Board determines the Group's risk profile and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. The Group's process of risk management and internal compliance and control includes:

- establishing the Group's goals and objectives, and implementing and monitoring strategies and policies to achieve these goals and objectives;
- continuously identifying and measuring risks that might impact upon the achievement of the Group's goals and objectives, and monitoring the environment for emerging factors and trends that affect these risks;
- formulating risk management strategies to manage identified risks, and designing and implementing appropriate risk management policies and internal controls;
- monitoring the performance of, and continuously improving the effectiveness of, risk management systems and internal compliance and controls, including an annual assessment of the effectiveness of risk management and internal compliance and control.

To this end, comprehensive practices are in place that are directed towards achieving the following objectives:

- effectiveness and efficiency in the use of the Group's resources;
- compliance with applicable laws and regulations;
- preparation of reliable published financial information.

The Board oversees an annual assessment of the effectiveness of risk management and internal compliance and control. The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to management. Management is required by the Board to assess risk management and associated internal compliance and control procedures and report back on the efficiency and effectiveness of risk management by benchmarking the Group's performance to the Australia/New Zealand Standard on Risk Management (AS/NZ 4360).

CEO and CFO Certification

The Chief Executive Officer and the Chief Financial Officer have provided a written statement to the Board that their view provided on the Group's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the Board; and that the Group's risk management and internal compliance and control system is operating effectively in all material respects.

Performance

The performance of the Board and key executives is reviewed regularly against both measurable and qualitative indicators. During the reporting period, the Nomination Committee conducted performance evaluations that involved an assessment of each key executive's performance against specific and measurable qualitative and quantitative performance criteria. The performance criteria against which the executives are assessed are aligned with the financial and non-financial objectives of REA Group Limited. Directors whose performance is consistently unsatisfactory may be asked to retire.

Ethical Standards

The Directors and other employees are expected to act lawfully, in a professional manner, and with the utmost integrity and objectivity in their dealings with clients, contractors, candidates and competitors, the community and each other, striving at all times to enhance the reputation and performance of the company.

Shareholders

The Board of Directors of the company aims to ensure that the shareholders are informed of all major developments affecting the company's state of affairs. Information is communicated to shareholders as follows:

- The Annual Report is distributed to all shareholders and includes relevant information about the operations of the company during the year, changes in the state of affairs of the company and details of future developments, in addition to other disclosures required by the Corporations Law;
- Announcements are made to the Australian Stock Exchange in respect of annual and half-yearly results and on other occasions when the company becomes aware of information that might materially affect the price of its units; and
- The website www.rea-group.com is used to publish releases by the company.

DETAILS OF DIRECTORS AS AT 19 AUGUST 2010

MR RICHARD J FREUDENSTEIN BEC, LLB (HONS).

Non-executive director appointed 21 November 2006.
Appointed Chairman 20 April 2007. Age 45.

Experience and expertise

Mr Freudenstein is Chief Executive Officer of The Australian newspaper and Chief Executive Officer of News Digital Media. Mr Freudenstein is non executive Chairman of CareerOne.com.au and sits on the board of News Limited, FOXTEL, ESPN/Star Sports and The Bell Shakespeare Company. Mr Freudenstein returned to Australia in August 2006 after seven years at British Sky Broadcasting, the last six as Chief Operating Officer. Mr Freudenstein has worked for News Corporation and related companies since 1994.

Special responsibilities

- Chair of the Board.
- Member of remuneration and nomination committee.

MR ROGER AMOS FCA, MAICD.

Non-executive Director appointed 4 July 2006. Age 62.

Experience and expertise

Mr Amos is an independent Director of Austar United Communications Limited, where he is Chair of the Audit Committee and a member of the Remuneration Committee. He was appointed as a non executive Director of Tyrian Diagnostics Limited (formally Proteome Systems Limited) in June 2007 and became Chairman in November 2007. He is also a member of both Tyrian's Audit and Remuneration Committees. He is an independent member of the Audit Committee of the Global Carbon Capture and Storage Institute. He is Chairman of the Opera Foundation of Australia and a governor of the Cerebral Palsy Foundation.

Mr Amos had a long and distinguished career with international accounting firm KPMG for 25 years as a partner in the Assurance and Risk Advisory Services Division. While with KPMG he led the Australian team specialising in the information, communications and entertainment sectors.

Special responsibilities

- Chair of audit risk and compliance committee.
- Member of remuneration and nomination committee.

Interests in shares and options

2,395 ordinary shares in REA Group Ltd.

MS KATHLEEN CONLON BA(ECON)(DIST), MBA, FAICD

Non executive Director appointed 27 June 2007. Age 46.

Experience and expertise
Ms Conlon is a non-executive Director of CSR Limited (since 2004), where she serves on the Safety Health and Environment Committee and Audit committee. She is also a non-executive director of DLA Phillips Fox and a member of Chief Executive Women. She is a NSW Council Member of the Australian Institute of Company Directors and a member of the NSW Better Services and Value Taskforce.

Ms Conlon brings over 20 years of professional consulting experience to her boards. She is a recognised thought leader in strategy and business improvement, and has advised leading companies across a range of industries and countries. In her seven years as a partner and director of the Boston Consulting Group (BCG), Ms Conlon led BCG's Asia Pacific Operations Practice Area and, previously, the Sydney Office. In 2003, Ms Conlon was awarded a Centenary Medal for service to business.

Special responsibilities
- Member of the audit risk and compliance committee.
- Chair of the remuneration and nomination committee.

Interests in shares and options
2,000 ordinary shares in REA Group Ltd.

MS DIANA EILERT BSC, MCOMM, GAICD,

Non-executive Director appointed 30 June 2010. Age 50.

Experience and expertise
Ms Eilert is head of strategy and corporate development for News Limited, responsible for identifying, analysing, and implementing strategic growth opportunities to meet revenue and profit targets. She joined News Limited in March 2010 after a period of consulting to the News group.

Previously Ms Eilert was CEO of ASX-listed contracting, recruitment and IT services company, Clarius Group Limited. She was a director of Clarius Group from August 2007 to November 2008. From 2003 to 2007 she was a senior executive at Suncorp with roles including Group Executive responsible for Suncorp's general insurance business and Group Executive responsible for Suncorp Marketing, IT, HR and Joint Ventures. Prior to that she held senior roles with Citibank, Zurich, and consulting firms, IBM and AT Kearney.

Ms Eilert was appointed non-executive Director on 30 June 2010. She is also a director of Queensland Urban Utilities.

MR GREG ELLIS BBUS.

Managing Director/CEO appointed 23 September 2008. Age 48.

Experience and expertise
Mr Ellis was appointed Chief Executive Officer and Managing Director of REA Group in September 2008. Mr Ellis is a seasoned online executive having held senior management roles in internet-based companies in Australia and internationally. He joined REA from Microsoft where he was Marketing Director Asia Online Services. Prior to that, he was Managing Director Online, for Truvo BV, a leading local search and advertising business operating in six countries: The Netherlands, Belgium, Ireland, Portugal, South Africa and Romania. In Australia, his prior roles have included Managing Director of Sensis Interactive and Group Manager Marketing for Telstra Corporation.

In May 2010, Mr Ellis was appointed to the Board of the Interactive Advertising Bureau (IAB) Australia as REA Group's representative.

MR JOHN D MCGRATH

Non-executive Director appointed 15 September 1999. Age 46.

Experience and expertise
Mr McGrath founded McGrath Estate Agents in 1988. He has grown McGrath Estate Agents to be one of Australia's most successful property services groups, becoming the first real estate company to be ranked on BRW's Australia's Fastest Growing Private Companies List. Mr McGrath is a Director of McGrath Group of Companies and the Rawson Group. In 2003, he was awarded a Centenary Medal for service to business. In 2008, he was honored by the Real Estate Institute of NSW with the Woodrow Weight OBE Award, a lifetime achievement award for his outstanding contribution to the real estate industry.

Special responsibilities
- Member of remuneration and nomination committee.

Interests in shares and options
140,981 ordinary shares in REA Group Ltd (indirect).

MR JOHN PITTARD BSC

Non-executive Director appointed 30 June 2010. Age 58

Experience and expertise
Mr Pittard is the Chief Information Officer for News Limited, providing technical leadership for News Limited's mastheads throughout Australia as well as its online properties such as news.com.au, truelocal.com.au and carsguide.com.au. Mr Pittard contributes over thirty years of experience in senior technology roles with some of Australia's largest companies including Telstra, Pioneer Australia and Shell International.

Mr Pittard was appointed a non-executive director on 30 June 2010. He is also a director of Recruit Advantage and a member of the HP Software & Solutions CIO Advisory Board which brings together 25 leading CIOs from around the world.

Interests in shares and options
22,200 options over Class A News Corporation Limited shares

MR STEPHEN P RUE CA, BBS, DPA.

Non-executive Director appointed 1 September 2003. Age 44.

Experience and expertise
Mr Rue is the Chief Financial Officer of News Limited, the Australian arm of News Corporation. He was appointed to his current role in May 2003, and previously was the company's Group Finance Manager. Mr Rue first joined News Limited in 1996 and moved into the role of Treasurer and Special Projects Manager prior to being appointed Group Finance Manager. Mr Rue's experience includes 8 years at Arthur Andersen where he held the position of Senior Manager in their Audit and Business Advisory division. Mr Rue is Chairman of Community Newspaper Group Limited, Chairman of Melbourne Storm Rugby League Club Limited and a Director of News Limited and Australian Associated Press Pty Limited. Mr Rue is a Chartered Accountant and holds a Bachelor of Business Studies and a Diploma in Professional Accounting.

Special responsibilities
- Member of audit risk and compliance committee.

Interests in shares and options
44,400 options over Class A News Corporation Limited shares

MR SAM R WHITE B.COM, LL.B.

Non-executive Director appointed 2 September 2002. Age 39.

Experience and expertise

Mr White joined Ray White Real Estate in 1991 and was appointed to its Board in 1998. Mr White is also Chairman of the Loan Market Group, a leading mortgage and insurance broking group. Mr White has a Bachelor of Commerce and a Bachelor of Law from the University of Queensland.

Special Responsibilities

- Member of the remuneration and nomination committee.

Interests in shares and options

564,213 ordinary shares in REA Group Ltd.

MR ALASDAIR MACLEOD

Non-executive Director from February 2003 until 31 January 2010.

MR JEREMY PHILIPS

Non-executive Director from March 2009 until 30 June 2010.

MEETINGS OF DIRECTORS

The number of meetings of the company's board of directors (including meetings of each board committee held during the 2010 financial year up to 30 June 2010, and the number of meetings attended by each Director were as follows:

			Meetings of committees			
	Full meetings of directors		Audit Risk and Compliance Meetings		Remuneration and Nomination Committee Meetings	
	A	B	A	B	A	B
Mr Richard J Freudenstein	7	6	-	-	3	3
Mr Roger Amos	7	7	5	5	3	3
Ms Kathleen Conlon	7	7	5	5	3	3
Mr Greg Ellis	7	7	-	-	-	-
Mr John D McGrath	7	7	-	-	3	2
Mr Stephen P Rue	7	7	5	5	-	-
Mr Sam R White	7	6	-	-	3	3
Mr Alasdair MacLeod (until 31 January 2010)	4	2	-	-	-	-
Mr Jeremy Philips (until 30 June 2010)	7	6	-	-	-	-

No meetings were held after Ms Eilert and Mr Pittard were appointed directors on 30 June 2010.

A = Number of meetings held during the time the director held office or was a member of the committee during the year

B = Number of meetings attended

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 30 June 2010

	Notes	Consolidated 2010 $'000	2009 $'000
Revenue from continuing operations		**194,335**	167,795
Salaries and employee benefits expenses	7	**(63,372)**	(60,123)
Consultant and contractor expenses		**(8,368)**	(7,540)
Marketing related expenses		**(16,665)**	(14,243)
Technology expenses		**(8,875)**	(4,575)
Net gain on sale of operations and fixed assets		**302**	-
Other expenses	7	**(19,370)**	(18,823)
Profit before tax, interest, depreciation and amortisation (EBITDA)		**77,987**	62,491
Depreciation and amortisation expense		**(7,088)**	(7,348)
Impairment of goodwill	14	**-**	(6,141)
Impairment of intangibles	14	**-**	(1,854)
Profit before tax and interest (EBIT)		**70,899**	47,148
Finance income		**1,980**	628
Finance costs	6	**(916)**	(475)
Profit before income tax (EBT)		**71,963**	47,301
Income tax expense	8	**(22,597)**	(18,598)
Profit from continuing operations		**49,366**	28,703
Profit / (loss) from discontinued operations	9	**1,277**	(63,341)
PROFIT / (LOSS) FOR THE YEAR		**50,643**	(34,638)
Other comprehensive income			
Transferred realised (losses) on disposal of subsidiaries		**(4,115)**	-
Foreign currency translation		**(2,904)**	5,053
Non-controlling interest on acquisition of subsidiary		**-**	580
Other comprehensive income for the period, net of tax		**(7,019)**	5,633
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**43,624**	(29,005)
Profit for the year is attributable to:			
Non-controlling interest		**(14)**	(35,584)
Owners of the parent		**50,657**	946
		50,643	(34,638)
Total comprehensive income for the year is attributable to:			
Non-controlling interest		**(2,925)**	(32,973)
Owners of the parent		**46,549**	3,968
		43,624	(29,005)
		Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company:			
Basic earnings per share	35	**39.1**	25.6
Diluted earnings per share	35	**39.1**	25.6
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per share	35	**39.5**	0.7
Diluted earnings per share	35	**39.5**	0.7

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

BALANCE SHEETS

For the year ended 30 June 2010

	Notes	Consolidated 2010 $'000	2009 $'000
ASSETS			
Current assets			
Cash and cash equivalents	10	**88,163**	41,588
Trade and other receivables	11	**29,447**	27,871
Other current assets	12	**2,203**	3,603
Assets of disposal group classified as held for sale		**-**	7,119
Total current assets		**119,813**	80,181
Non-current assets			
Plant and equipment	13	**5,816**	5,503
Intangible assets	14	**55,246**	54,920
Deferred tax assets	15	**3,604**	2,560
Total non-current assets		**64,666**	62,983
Total assets		**184,479**	143,164
LIABILITIES			
Current liabilities			
Trade and other payables	16	**19,593**	19,831
Interest bearing loans and borrowings	17	**-**	488
Current tax liabilities		**8,766**	10,064
Provisions	18	**2,721**	2,385
Other current liabilities	19	**12,413**	11,100
Liabilities of disposal group classified as held for sale		**-**	3,227
Total current liabilities		**43,493**	47,095
Non-current liabilities			
Interest bearing loans and borrowings	20	**-**	32
Deferred tax liabilities	21	**1,088**	1,666
Provisions	22	**1,048**	860
Total non-current liabilities		**2,136**	2,558
Total liabilities		**45,629**	49,653
Net assets		**138,850**	93,511
EQUITY			
Contributed equity	23	**64,695**	56,002
Reserves	24	**(4,440)**	(344)
Retained earnings	25	**74,360**	36,429
Parent interest		**134,615**	92,087
Non-controlling interest		**4,235**	1,424
Total equity		**138,850**	93,511

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

STATEMENTS OF CHANGES IN EQUITY

For the year ended 30 June 2010

Consolidated	Contributed Equity	Retained Earnings	FX Translation Reserve	Share-based Payment Reserve	Other Reserves	Owners of the parent	Non-controlling interest	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2008	**56,002**	**35,483**	**(4,609)**	**-**	**568**	**87,444**	**27,380**	**114,824**
Profit for the year	-	946	-	-	-	946	(35,584)	(34,638)
Foreign currency translation differences	-	-	3,022	-	-	3,022	2,031	5,053
Non-controlling interest on acquisition of subsidiary	-	-	-	-	-	-	580	580
Total comprehensive income for the year	**-**	**946**	**3,022**	**-**	**-**	**3,968**	**(32,973)**	**(29,005)**
Transactions with owners in their capacity as owners								
LTIP equity share	-	-	-	675	-	675	-	675
Equity injections by minority shareholders	-	-	-	-	-	-	7,017	7,017
Balance at 30 June 2009	**56,002**	**36,429**	**(1,587)**	**675**	**568**	**92,087**	**1,424**	**93,511**

Consolidated	Contributed Equity	Retained Earnings	FX Translation Reserve	Share-based Payment Reserve	Other Reserves	Owners of the parent	Non-controlling interest	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2009	**56,002**	**36,429**	**(1,587)**	**675**	**568**	**92,087**	**1,424**	**93,511**
Profit for the year	-	50,657	-	-	-	50,657	(14)	50,643
Foreign currency translation differences	-	-	(2,580)	-	-	(2,580)	(324)	(2,904)
Derecognition on disposal of subsidiaries	-	-	(1,528)	-	-	(1,528)	(2,587)	(4,115)
Total comprehensive income for the year	**-**	**50,657**	**(4,108)**	**-**	**-**	**46,549**	**(2,925)**	**43,624**
Transactions with owners in their capacity as owners								
LTIP equity share	-		-	12	-	12	-	12
Equity injections by non-controlling interests	-	-	-	-	-	-	5,736	5,736
Shares issued via DRP	8,693	-	-	-	-	8,693	-	8,693
Dividends paid	-	(12,726)	-	-	-	(12,726)	-	(12,726)
Balance at 30 June 2010	**64,695**	**74,360**	**(5,695)**	**687**	**568**	**134,615**	**4,235**	**138,850**

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

STATEMENTS OF CASH FLOWS
For the year ended 30 June 2010

	Notes	Consolidated 2010 $'000	2009 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		211,543	205,379
Payments to suppliers and employees (inclusive of goods and services tax)		(127,051)	(157,428)
		84,492	47,951
Interest received		1,748	644
Interest paid		(67)	(285)
Income taxes paid		(25,230)	(16,513)
Net cash inflow from operating activities	34	60,943	31,797
Cash flows from investing activities			
Purchase of plant and equipment	13	(4,167)	(4,155)
Purchase of intangible assets	14	(9,111)	(1,010)
Proceeds from sale of plant and equipment		64	453
Proceeds from sale of discontinued operations	9	2,091	-
Proceeds from sale of subsidiary		354	-
Payment for purchase of subsidiary, net of cash acquired		-	(1,183)
Net cash (outflow) from investing activities		(10,769)	(5,895)
Cash flows from financing activities			
Proceeds from issues of ordinary shares in subsidiary		2,172	7,582
Loan to related party		(855)	-
Payment of dividend		(4,033)	-
Finance lease payments		(479)	(1,040)
Net cash (outflow)/ inflow from financing activities		(3,195)	6,542
Net increase in cash and cash equivalents		46,979	32,444
Cash and cash equivalents at the beginning of the financial year		41,588	8,882
Effects of exchange rate changes on cash and cash equivalents		(404)	262
Cash and cash equivalents at end of year	10	88,163	41,588

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

NOTES TO THE FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

The financial report of REA Group Limited for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 19 August 2010. REA Group Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. For information pertaining to the nature of operations refer to the Directors' Report.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards board.

The consolidated financial report of the Group complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial report has also been prepared on a historical cost basis, except for asset and liabilities of disposal group, which have been measured at fair value. Items included in the financial statements of each of the Groups' entities are measured using the currency of the primary economic environments in which the entity operates ("functional currency"). The consolidated financial statements are presented in Australian dollars, which is the Group's functional and presentational currency.

(b) Principles of consolidation

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

Subsidiaries are consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases. Control exists when the Group has the power, directly or indirectly to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated in full on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Investments in subsidiaries are accounted for at cost in the separate financial statements of REA Group Limited less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate income statement of the parent entity, and do not impact the recorded cost of the investment.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable intangible assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values. (see note 2(h)).

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

A change in ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

Non-controlling interests are allocated their share of net profit after tax in the statement of comprehensive income and are presented within equity in the balance sheet, separately from the equity of the owners of the parent. Losses incurred by a subsidiary are proportionally allocated to the controlling and non-controlling interest, until the balance of the non-controlling interest is reduced to nil. Any further losses are attributed to the controlling interest.

The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group. Disposals to non-controlling interests result in gains and losses for the Group that are recorded in the income statements. Purchases from non-controlling interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of identifiable net assets of the subsidiary.

Prior to 1 July 2009

In comparison to the above mentioned requirements which were applied prospectively from 1 July 2009, the following differences applied:

- Non-controlling interests (formerly known as minority interests) represented the portion of profit or loss and net assets of a subsidiary that were not wholly owned by the Group and were presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from the parent shareholders' equity.
- Losses incurred by the Group were attributed to the parent, until the balance was reduced to nil. Any further losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Operating segments – refer note 5

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive leadership team. Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statements, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

(iii) Group companies

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

- Assets and liabilities for each balance sheets presented are translated at the closing rate at the date of that balance sheets
- Income and expenses for each income statements 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.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

The following specific recognition criteria must also be met before revenue is recognised for the major business activities as follows:

(i) Rendering of services

Revenue is recognised where the contract outcome can be estimated reliably and control of the right to be compensated for their services and the stage of completion can be reliably measured. Advance billings are deferred and released in the appropriate period when the service is delivered. Prepayments are capitalised and released in the appropriate period when service is delivered.

(ii) Interest income

Interest income is recognised using the effective interest rate method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Income tax

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

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

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation legislation
REA Group Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

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

In addition to its own current and deferred tax amounts, REA Group Limited 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. Details about the tax funding agreement are disclosed in note 8.

(g) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 30). Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statements over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 30). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statements on a straight-line basis over the period of the lease.

(h) Business combinations

Subsequent to 1 July 2009
Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred.

All financial assets and liabilities assumed on acquisition are assessed as at the date of acquisition for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and any other relevant conditions.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured through the profit or loss.

Any contingent consideration on the acquisition will be recognized at fair value at the acquisition date. Any changes to the fair value will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prior to 1 July 2009

The purchase method of accounting was used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost was measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination were measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired was recorded as goodwill (refer to note 2(n)). If the cost of acquisition was less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference was recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

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

(i) Impairment of assets

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

(j) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short term deposits with an original maturity of less than three months and are subject to an insignificant risk of change in value.

For cash flow statements presentation purposes, cash and cash equivalents are as defined above, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 2 weeks.

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statements within 'other expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other expense in the income statements.

(l) Investments and other financial assets

A financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- The group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- Leasehold improvements - the lease term
- Plant and equipment – over 2 to 10 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statements. When revalued assets are sold, it is Group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

(n) Intangible assets

(i) Goodwill

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

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each country of operation by each primary reporting segment (note 5).

(ii) IT development and software

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service and direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight-line basis generally over 3 years.

IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the Group has an intention and ability to use the asset.

(iii) Customer lists / domain names / brand names / advertising relationships

When these assets are acquired as part of a business combination they are recognised separately from goodwill. The assets are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on the timing of projected cash flows of the contracts over their estimated useful lives, which currently vary from 5 to 11 years.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

(o) Trade and other payables

Trade and other payables are carried at amortised cost due to their short term and are not discounted.

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition.

(p) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statements over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

(q) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(r) Provisions

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave due to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave 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 reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Share-based payments

The Group provides benefits to its employees (including key management personnel) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions). There is currently one plan in place, the Long Term Incentive Plan (LTIP), which provides benefits to executives identified by the Board. The fair value of each performance right is estimated at grant date using a Monte Carlo simulation. The valuation was performed independently by KPMG.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date). At each subsequent reporting date until vesting, the cumulative charge to the income statement is in accordance with the vesting conditions as set out under the Group's Long Term Incentive Plan (note 36).

Equity-settled awards granted by REA Group Limited to employees of subsidiaries are recognised in the subsidiaries' separate financial statements as an expense with a corresponding credit to equity. As a result, the expense recognised by the Group is the total expense associated with all such awards. Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated.

The dilutive effect, if any, of outstanding rights is considered as immaterial for the current financial year and consequently is not reflected as additional share dilution in the computation of diluted earnings per share.

The Group currently does not provide benefits in the form of cash settled share-based payments.

(t) Contributed equity

Ordinary shares are classified as equity.

(u) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares (note 35).

(ii) Diluted earnings per share

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

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

(v) 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 taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

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

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 flows.

(w) Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report.

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting except for the following: The amendment to AASB 117 removes the specific guidance on classifying land as a lease so that only the general guidance remains. Assessing land leases based on the general criteria may result in more land leases being classified as finance leases and if so, the type of asset which is to be recorded (intangible vs. property, plant and equipment) needs to be determined. The amendment to AASB 101 stipulates that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification. The amendment to AASB 107 explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities. The amendment to AASB 118 provides additional guidance to determine whether an entity is acting as a principal or as an agent. The features indicating an entity is acting as a principal are whether the entity: • has primary responsibility for providing the goods or service; • has inventory risk; • has discretion in establishing prices; and • bears the credit risk.	1 January 2010	These amendments are only expected to affect the presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report.	1 July 2010
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. The amendment to AASB 124 clarifies and simplifies the definition of a related party as well as providing some relief for government-related entities (as defined in the amended standard) to disclose details of all transactions with other government-related entities (as well as with the government itself).	1 January 2011	These amendments are only expected to affect the presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report.	1 July 2011

3 FINANCIAL RISK MANAGEMENT

The Group seeks to manage risk in ways that will generate and protect shareholder value. Management of risk is a continual process and an integral part of business management and corporate governance. The Group's risk management strategy is aligned with the corporate strategy and company vision, to ensure that the risk management strategy contributes to corporate goals and objectives. The risk management program has been designed to establish a system of risk oversight and management and internal controls by having the framework in place to identify, assess, monitor and manage risk. The risk management methodology has been developed in line with the Australia/New Zealand Risk Management Standard (AS/NZ 4360). The program and methodology seek to promote awareness of risks and intelligent risk taking and management in, and among, all levels of the business.

The Board determines the Group's tolerance for risk, after taking into account the strategic objectives and other factors including shareholder expectations, financial and reporting requirements and the financial position, organisational culture and the experience or demonstrated capacity in managing risks. Management is required to analyse its business risk in the context of Board expectations, specific business objectives and the organisation's risk tolerance.

One of the key areas of the Group's risk management focus is on financial risk management. The Group's principal financial instruments comprise receivables, payables, finance leases, bank and intercompany loans, and cash and short-term deposits. The main purpose of these financial instruments is to raise and distribute funds for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. It is, and has been throughout the period, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are

- Foreign currency risk – as a result of foreign operations
- Interest rate risk – as a result of short term funding and finance leases
- Liquidity risk – as a result of short term funding
- Credit risk – as a result of holding financial assets

(a) Foreign currency risk

Foreign currency risk arises when future commercial transactions and recognised financial assets and financial liabilities are denominated in a currency that is not the entity's functional currency. As there is no material exposure to foreign currency risk within the financial assets and financial liabilities outside of each operating segment's functional currency, no sensitivity analysis has been prepared.

(b) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank and related party loans, and finance lease contracts.

All funding requirements are coordinated and established via corporate head office in Australia for all Group operations, thereby enabling a centralised treasury management approach. The Group minimises liquidity risk by maintaining a sufficient level of cash and equivalents, as well as ensuring the Group has access to short term credit facilities as required. Assuming all variables are equal, no long-term facilities are required.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Maturity analysis of financial assets and liabilities

Most instruments mature in the short term. The Group is cash flow positive without any material long term cash commitments other than those disclosed under commitments and contingencies. As a result of this, external funding usually matures within one year, therefore the two maturity bands as shown below were chosen, which focus on the first 12 months.

Consolidated At 30 June 2010	Less than 6 months	6 - 12 months	Greater than 1 year	Total
	$'000	$'000	$'000	$'000
Financial assets				
Cash and cash equivalents	88,163	-	-	88,163
Trade and other receivables	28,592	-	-	28,592
Loan to related party	-	855	-	855
	116,755	855	-	117,610
Financial liabilities				
Trade and other payables	19,593	-	-	19,593
Interest bearing loans and borrowings - third parties	-	-	-	-
	19,593	-	-	19,593

Consolidated At 30 June 2009	Less than 6 months	6 - 12 months	Greater than 1 year	Total
	$'000	$'000	$'000	$'000
Financial assets				
Cash and cash equivalents	41,588	-	-	41,588
Trade and other receivables	27,871	-	-	27,871
	69,459	-	-	69,459
Financial liabilities				
Trade and other payables	19,831	-	-	19,831
Interest bearing loans and borrowings - third parties	244	244	32	520
	20,075	244	32	20,351

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Interest rate risk

The Group's exposure to the risk of change in market interest rates relates primarily to the Group's short term debt obligations of a floating interest rate loan as described in note 20. Domestic interest rate movements contribute to 100% (2009: 100%) of overall interest rate risk exposure, therefore no further analysis of the impact of foreign interest rate changes was necessary.

As at 30 June 2010, the Group had the following financial assets and liabilities exposed to interest rate risk:

	Consolidated	
	2010 $'000	2009 $'000
Financial assets		
Cash and cash equivalents	**88,163**	41,588
	88,163	41,588
Financial liabilities		
Interest bearing loans and borrowings - third parties	**-**	520
	-	520
Net exposure	**88,163**	41,068

The Group has managed its interest rate risk by the use of fixed rate instruments (finance leases) and by maximising the interest earned from the funds balanced against the working capital needs.

The following sensitivity is based on the interest rate risk exposure in existence at balance sheet date and was based on historic movements in interest rates. As at 30 June 2010, with all other variables held constant, post tax profit and equity would have been affected as illustrated in the table below.

	Consolidated	
	2010 $'000	2009 $'000
Post Tax Profit Higher /(Lower)		
+1.0% (100 basis points)	**649**	59
-1.0% (100 basis points)	**(649)**	(59)

Management believes the risk exposure at balance sheet date is representative of the risk exposure inherent in the financial instruments. There is uncertainty in the market if interest rates will rise further or drop in the near future. Management has consequentially chosen the above variation which is representative for the annual average interest rate increases of the last couple of years.

(d) Credit risk

Receivable balances are monitored on an ongoing basis. The Group's exposure to bad debts is not significant. There are no significant concentrations of credit risk with single counterparties within the Group. Since the Group trades only with recognised third parties, there is no requirement for collateral. The consolidated Group's maximum exposures to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the balance sheet.

In the history of the Group, there have not been significant write-offs of trade debtors. Our policies determine on an individual debtor basis, the likelihood for default. The monthly analysis performed of the trade debtor portfolio does not suggest any material credit risk exposure. With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

All assets and liabilities recognised in the balance sheet whether carried at cost or at fair value are recognised at amounts that represent a reasonable approximation of fair value unless otherwise stated.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

(a) Critical accounting estimates and assumptions

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

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2(n). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 14 for details of these assumptions and the potential impact of changes to the assumptions.

(ii) Income taxes

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on the Group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

In addition, the Group has recognised deferred tax assets relating to carried forward tax losses to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same subsidiary against which the unused tax losses can be utilised. However, utilisation of the tax losses also depends on the ability of the entity to satisfy certain tests at the time the losses are recouped.

(iii) Long Service Leave Provision

The liability for long service leave provision is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at balance sheet date. In determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account.

(iv) Estimation of useful lives of assets

The estimation of useful lives of assets has been based on historic experience, lease terms, and turnover policies.

(b) Critical judgments in applying the entity's accounting policies

Impairment of non-financial assets other than goodwill

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment.

Share based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined with the assistance of an external valuer using a monte carlo model, with the assumptions detailed in note 36. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

5 SEGMENT INFORMATION

Identification of segments

The Group has identified its segments based on the internal reports that are used and reviewed by the executive management team (the chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group's operating segments are determined based on the location of the Group's operations. Unallocated overhead includes the costs of certain central head office functions. Following the divestiture of its UAE and UK operations at the beginning of FY10, REA changed its method for allocation of overhead costs to allocate those costs more directly. Discrete financial information about each of these operating businesses is reported to the executive management team at least monthly.

Type of service

The Group has only one type of service, which is the provision of advertising services to the Real Estate industry. While the Group offers different brands to the market it is considered that it only has one product/service.

The following tables present revenue and results by operating segments for the year ended 30 June 2010 and 30 June 2009.

2010	Australia	Italy	Other – International	Total continuing operations	Discontinued operation (note 9)	TOTAL
	$'000	$'000	$'000	$'000	$'000	$'000
Segment revenue						
Sales to external customers	178,227	8,881	7,227	194,335	1,338	195,673
Total consolidated revenue				**194,335**	**1,338**	**195,673**
Result						
Country EBITDA	92,206	(6,637)	744	86,313	1,369	87,682
Unallocated expenses #				(8,326)	-	(8,326)
EBITDA				**77,987**	**1,369**	**79,356**
Depreciation and amortisation				(7,088)	(19)	(7,107)
Net finance costs				1,064	(73)	991
Profit before income tax				**71,963**	**1,277**	**73,240**
Income tax expense				(22,597)	-	(22,597)
Net profit for the year				**49,366**	**1,277**	**50,643**

2009	Australia	Italy	Other – International	Total continuing operations	Discontinued operation (note 9)	TOTAL
	$'000	$'000	$'000	$'000	$'000	$'000
Segment revenue						
Sales to external customers	150,136	8,540	9,119	167,795	18,677	186,472
Total consolidated revenue				**167,795**	**18,677**	**186,472**
Result						
Country EBITDA	83,433	(3,691)	(5,222)	74,520	(17,826)	56,694
Unallocated expenses #				(12,029)	-	(12,029)
EBITDA				**62,491**	**(17,826)**	**44,665**
Depreciation and amortisation				(7,348)	(1,234)	(8,582)
Impairment of goodwill				(6,141)	(44,360)	(50,501)
Impairment of intangibles				(1,854)	(2,100)	(3,954)
Net finance costs				153	(225)	(72)
Profit before income tax				**47,301**	**(65,745)**	**(18,444)**
Income tax expense				(18,598)	2,404	(16,194)
Net profit for the year				**28,703**	**(63,341)**	**(34,638)**

Unallocated expenses includes salaries of $3,394k (FY09:$7,173k)

Major customers

The Group has a number of customers to which it provides both products and services. The Group does not rely on any of these customers and none of them amount to 10% or more of external revenue.

6 FINANCE COSTS

	Consolidated	
	2010 $'000	2009 $'000
Bank loans and overdrafts	57	210
Finance charges paid under finance lease	10	74
Net foreign exchange loss	849	191
	916	475

7 EXPENSES

	Consolidated	
	2010 $'000	2009 $'000
Profit before income tax includes the following specific expenses:		
(a) Other Expense		
Property expenses	3,443	3,501
Administration related expense	6,021	5,764
Travel expenses	3,472	2,729
Printing and distribution expense	699	859
Recruitment	1,097	1,511
Staff training and conferences	1,875	1,559
Other expenses	2,763	2,900
Total other expenses	**19,370**	**18,823**
(b) Salaries and employee benefits expense		
Wages and salaries	56,277	54,308
Workers compensation costs	121	121
Defined contribution plan expense (superannuation)	3,697	3,750
Long service leave provision	210	172
Other associated personnel costs	3,067	1,772
Total salaries and employee benefits expense	**63,372**	**60,123**

8 INCOME TAX EXPENSE

	Consolidated 2010 $'000	2009 $'000
(a) Income tax expense		
Current tax	24,785	19,545
Deferred tax	(1,441)	(3,029)
Adjustments for current tax of prior periods	(387)	(1,129)
Adjustments for deferred tax of prior periods	(360)	807
Aggregate income tax expense	22,597	16,194
Profit from continuing operations	22,597	18,598
Profit/(loss) from discontinued operations	-	(2,404)
Aggregate income tax expense	22,597	16,194
Deferred income tax (revenue) expense included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets (note 15)	(1,044)	(961)
(Decrease)/increase in deferred tax liabilities (note 21)	(397)	(2,068)
	(1,441)	(3,029)
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	71,963	47,301
Profit/(loss) from discontinuing operations before income tax expense	1,277	(65,745)
	73,240	(18,444)
Tax at the Australian tax rate of 30% (2009 - 30%)	21,972	(5,533)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Effect of foreign tax rate	(134)	2,120
Foreign subsidiary losses not recognised in the Group (i)	2,286	6,208
Foreign branch tax losses not recognised (New Zealand)	(55)	85
Foreign subsidiary losses utilised by the Group (ii)	(408)	-
Investment allowance deduction	(13)	-
Non deductible amortisation and impairments	-	15,382
Research and development deduction	(847)	(319)
Non-deductible legal fees	21	-
Other	162	(620)
	22,984	17,323
Prior year tax losses recognised in current year- Home Guru	(228)	(322)
Adjustments for current tax or prior periods R&D, LTIP	(159)	(807)
	(387)	(1,129)
Aggregate income tax expense	22,597	16,194

(i) This figure includes unrecognised tax losses for the overseas operations during this fiscal year. It consists of current year accounting losses, with a tax effect of $nil (2009: $3,847k) for REA UK Group, $nil (2009: $154k) for REA Group Europe Limited, $2,151k (2009: $1,533k) for REA Italia Group, $9k (2009: $674k) for the Greater Luxembourg operations, and $126k (2009: $nil) for REA Group Hong Kong.

(ii) This figure represents unrecognized tax losses utilised in respect of REA Group UK Limited result for the year.

8 INCOME TAX EXPENSE (CONTINUED)

(c) Tax consolidation legislation

REA Group Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. The accounting policy in relation to this legislation is set out in note 2(f).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, REA Group Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate REA Group Limited for any current tax payable assumed and are compensated by REA Group Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to REA Group Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax installments. The funding amounts are recognised as current intercompany receivables or payables.

9 DISCONTINUED OPERATION

On 7 August 2009 REA Group Limited ("REA") and News International Ltd ("News Int") sold the whole of the issued share capital in REA UK Limited for a minimum guaranteed sale price of $3.8 million to Zoopla Limited. REA's 50% share of the sale proceeds was $1.9 million. The UK business was classified as held for sale as at 30 June 2009 and the comparative income statement has been re-presented to show the discontinued operation separately from the continuing operations.

Management committed to a plan to sell this business late in the 2009 financial year following a review undertaken in May 2009 in line with REA's stated position to concentrate on its core businesses. The company operating the UK online business was treated as a consolidated subsidiary of REA in accordance with its accounting policies set out in note 2(b), as REA had a majority on its board of directors until the date of its disposal.

Financial information relating to the discontinued operation for the period to the date of disposal is set out below. Further information is set out in note 5 –Segment Information.

(a) Financial performance and cash flow information

The financial performance and cash flow information presented are for full 12 months.

	2010 $'000	2009 $'000
Revenue	**1,338**	18,677
Expenses (net of write back of provisions)	**208**	(36,503)
Depreciation and amortisation	**(19)**	(1,234)
Net finance expense	**(73)**	(225)
Impairment of goodwill	**-**	(44,360)
Impairment of intangibles	**-**	(2,100)
Result from operating activities	**1,454**	(65,745)
Income tax expense	**-**	2,404
Results from operating activities (net of tax)	**1,454**	(63,341)
Net result on sale of discontinued operation after adjustments	**(177)**	-
Profit/ (loss) from discontinued operation	**1,277**	(63,341)

Net cash inflow/ (outflow) from operating activities	**39**	(11,393)
Net cash (outflow) from investing activities	**-**	(1,408)
Net cash inflow from financing activities	**524**	12,718
Net cash generated in the books of the UK operations	**563**	(83)

9 DISCONTINUED OPERATION (CONTINUED)

(b) Carrying amounts of assets and liabilities

The financial position of the disposal group as at 7 August 2009 is shown below:

	7 August 2009 $'000
Cash	1,291
Plant and equipment	359
Intangibles	4,237
Trade and other receivables	2,771
Other assets	546
Total assets	9,204
Trade creditors and other payables	(1,473)
Provisions	(10)
Deferred revenue	(2,409)
Total liabilities	(3,892)
Net assets	5,312

	30 June 2010 $000
Cash consideration on sale of business	1,818
Less: net working capital adjustment on settlement	(700)
Add: cash received re sale of tax losses	973
Net cash inflow for year ended 30 June 2010	**2,091**

10 CURRENT ASSETS – CASH AND CASH EQUIVALENTS

		Consolidated
	2010 $'000	2009 $'000
Cash at bank and in hand	33,138	41,389
Short term deposits	55,025	199
	88,163	41,588

11 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

		Consolidated
	2010 $'000	2009 $'000
Net trade receivables		
Trade receivables (i)	32,336	29,876
Provision for impairment of receivables	(3,744)	(3,475)
	28,592	26,401
Related party receivable(ii)	855	1,091
Sundry receivables	-	379
	29,447	27,871

i)Trade receivables are non interest bearing and are on 14 to 75 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. An allowance has been recognised as an expense for the current year for specific debtors for which such evidence exists. The amount of the allowance/impairment loss has been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors.

ii) The 2010 consolidated related party receivable of $855k relates to a loan balance outstanding between casa.it Srl and Sky Italia Srl. The 2009 consolidated related party receivable of $1,091k relates to UK tax losses sold to News International Limited.

11 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Trade receivables – past due date

As at 30 June, the ageing analysis of trade receivables is as follows

	Consolidated	
	2010 $'000	2009 $'000
Not due	22,636	18,869
0 – 30 days	3,260	3,465
31 – 60 days	735	1,365
61+ days	1,961	2,702
Considered impaired	3,744	3,475
	32,336	29,876

12 CURRENT ASSET – OTHER CURRENT ASSETS

	Consolidated	
	2010 $'000	2009 $'000
Prepayments	1,749	3,285
Other current assets	454	318
	2,203	3,603

13 NON CURRENT ASSETS – PLANT AND EQUIPMENT

Consolidated	Plant and equipment $'000	Leasehold improvements $'000	Total $'000
Year 30 June 2009			
Opening net book amount	**4,253**	**799**	**5,052**
Exchange differences (net)	87	10	97
Acquisition of subsidiary	3	–	3
Additions	3,981	174	4,155
Disposals (net of accumulated depreciation)	(9)	–	(9)
Assets classified as held for sale and other disposals	(313)	(75)	(388)
Depreciation charge	(2,837)	(553)	(3,390)
Depreciation charge assets now held for sale	(256)	(9)	(265)
Re classification from intangibles (net)	248	–	248
Closing net book amount	**5,157**	**346**	**5,503**
At 30 June 2009			
Cost or fair value	13,413	1,996	15,409
Accumulated depreciation	(8,256)	(1,650)	(9,906)
Net book amount	**5,157**	**346**	**5,503**

Consolidated	Plant and equipment $'000	Leasehold improvements $'000	Total $'000
Year 30 June 2010			
Opening net book amount	**5,157**	**346**	**5,503**
Exchange differences (net)	(83)	(12)	(95)
Additions	3,738	429	4,167
Disposals (net of accumulated depreciation)	(371)	(1)	(372)
Depreciation charge	(3,020)	(231)	(3,251)
Re classification from intangibles (net of acc depreciation)	(136)	–	(136)
Closing net book amount	**5,285**	**531**	**5,816**
At 30 June 2010			
Cost or fair value	14,308	2,401	16,709
Accumulated depreciation	(9,023)	(1,870)	(10,893)
Net book amount	**5,285**	**531**	**5,816**

14 NON CURRENT ASSETS – INTANGIBLE ASSETS

Consolidated	Goodwill $'000	Software $'000	Customer contracts $'000	Total $'000
Year 30 June 2009				
Opening net book amount	**93,238**	**4,943**	**13,997**	**112,178**
Additions	-	1,010	-	1,010
Acquisition of subsidiary	678	-	773	1,451
Amortisation charge	-	(2,786)	(1,172)	(3,958)
Amortisation relating to assets now held for sale	-	-	(968)	(968)
Exchange differences	3,854	131	507	4,492
Disposals/Costs written off	-	(243)	-	(243)
Impairment of goodwill on continuing operations	(6,141)	-	-	(6,141)
Impairment of intangibles on continuing operations	-	(269)	(1,585)	(1,854)
Impairment of goodwill on discontinued operations	(44,360)	-	-	(44,360)
Impairment of intangibles on discontinued operations	-	-	(2,100)	(2,100)
Intangible assets held for sale	-	-	(4,339)	(4,339)
Re classification to Plant & Equipment	-	(248)	-	(248)
Closing net book amount	**47,269**	**2,538**	**5,113**	**54,920**
At 30 June 2009				
Cost	47,269	11,876	9,181	68,326
Accumulated amortisation and impairment	-	(9,338)	(4,068)	(13,406)
Net book amount	**47,269**	**2,538**	**5,113**	**54,920**

Consolidated	Goodwill $'000	Software $'000	Customer contracts $'000	Total $'000
Year 30 June 2010				
Opening net book amount	**47,269**	**2,538**	**5,113**	**54,920**
Additions	-	9,111	-	9,111
Amortisation charge	-	(2,836)	(1,001)	(3,837)
Exchange differences	(4,312)	(107)	(593)	(5,012)
Disposals/Costs written off (net)	-	(72)	-	(72)
Re classification to Plant & Equipment (net)	-	137	(1)	136
Closing net book amount	**42,957**	**8,771**	**3,518**	**55,246**
At 30 June 2010				
Cost	42,957	19,320	8,186	70,463
Accumulated amortisation and impairment	-	(10,549)	(4,668)	(15,217)
Net book amount	**42,957**	**8,771**	**3,518**	**55,246**

14 NON CURRENT ASSETS – INTANGIBLE ASSETS (CONTINUED)

(a) Impairment tests for goodwill

Goodwill acquired through business combinations has been allocated to three individual cash generating units for impairment testing as follows:

Advertising Australia and New Zealand

The recoverable amount of this unit has been determined based on a value in use calculation using cash flow projections based on financial forecasts approved by senior management covering a five year period. The pre-tax discount rate applied to cash flow projections is 16.9% (2009: 16.0%) and cash flows beyond the five year period are extrapolated using a growth rate of 2.9% (2009: 3.5%).

Advertising Italy

The recoverable amount of this unit has been determined based on a value in use calculation using cash flow projections based on financial forecasts approved by senior management covering a five year period. The pre-tax discount rate applied to cash flow projections is 16.5% (2009: 16.3%) and cash flows beyond the five year period are extrapolated using a growth rate of 1.6% (2009: 3%).

Advertising Greater Luxembourg region

The recoverable amount of this unit has been determined based on a value in use calculation using cash flow projections based on financial forecasts approved by senior management covering a five year period. The discount rate applied to cash flow projections is 16.3% (2009: 16.8%) and cash flows beyond the five year period are extrapolated using a growth rate of 3.1% (2009: 2%).

Carrying amount of goodwill allocated to each of the cash generating units	2010 $000	2009 $000
Advertising Australia/New Zealand	**23,289**	23,289
Advertising Italy	**15,028**	18,323
Advertising Greater Luxembourg region	**4,640**	5,657
Total	**42,957**	47,269

There were no other intangibles with indefinite lives.

(b) Key assumptions used for value in use calculations

The following describes each key assumption on which management has based its cash flow projections when determining the value in use of the cash generating unit.

Key assumptions used in "value in use" calculations for the Advertising Australia / New Zealand unit

For the purpose of this model, revenues are expected to grow at rates reflecting the expected growth of revenue per agent in Australia and New Zealand and the expected increase in agent numbers. EBITDA Margin is expected to be at levels consistent with current months.

Key assumptions used in "value in use" calculations for the Advertising Italy unit

For the purpose of this model, revenues are expected to grow at rates reflecting the expected growth of revenue per agent in Italy and the expected increase in agent numbers.

Key assumptions used in "value in use" calculations for the Advertising Great Luxembourg region unit

For the purpose of this model, revenues are expected to grow at rates reflecting the expected growth of revenue per agent in the Greater Luxembourg region and the expected increase in agent numbers.

15 NON CURRENT ASSETS – DEFERRED TAX ASSETS

	Consolidated	
	2010 $'000	2009 $'000
Employee benefits	**2,625**	950
Doubtful debts	**671**	713
Takeover defence expenditure	**7**	107
Accruals and other	**301**	790
	3,604	2,560

Movements – Consolidated	Employee benefits $'000	Provision for doubtful debts $'000	Take over defence expenditure $'000	Accruals $'000	Other $'000	Total $'000
At 1 July 2008	**863**	**283**	**208**	**118**	**127**	**1,599**
(Charged)/credited to the income statements	87	430	(101)	331	214	961
At 30 June 2009	**950**	**713**	**107**	**449**	**341**	**2,560**
(Charged)/credited to the income statements	1,675	(42)	(100)	129	(618)	1,044
At 30 June 2010	**2,625**	**671**	**7**	**578**	**(277)**	**3,604**

16 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated	
	2010 $'000	2009 $'000
Trade payables	**2,305**	4,554
Accrued expenses	**14,608**	9,533
Payables to related parties (i)	**-**	3,085
Other payables	**2,680**	2,659
	19,593	19,831

(i) Includes trade payables of $nil (FY09: $3,085k) to News International.
Information regarding the effective interest rate and credit risk of current payables is set out in note 3.

17 CURRENT LIABILITIES – INTEREST BEARING LOANS AND BORROWINGS

	Consolidated	
	2010 $'000	2009 $'000
Lease liabilities (note 30)	-	488
Total current borrowings	-	488

18 CURRENT LIABILITIES – PROVISIONS

	Consolidated	
	2010 $'000	2009 $'000
Employee benefits long service leave	266	247
Annual leave	2,356	2,086
Rental lease incentive	42	52
Other provisions	57	-
	2,721	2,385

19 CURRENT LIABILITIES – OTHER CURRENT LIABILITIES

		Consolidated	
		2010 $'000	2009 $'000
Deferred revenue	see note 2(e)	11,687	8,578
Prepaid revenues		726	2,522
		12,413	11,100

20 NON CURRENT LIABILITIES – INTEREST BEARING LOANS AND BORROWINGS

	Consolidated 2010 $'000	2009 $'000
Secured		
Lease liabilities (note 30)	-	32
	-	32

(a) Financing arrangements
The Group and the parent entity had access to the following undrawn borrowing facilities at the reporting date:

	Consolidated 2010 $'000	2009 $'000
Bank loan facilities		
Total facilities	**10,000**	14,000
Used at balance date	**-**	-
Unused at balance date	**10,000**	14,000

The Group has a combined bank loan/overdraft facility of $10 million that expires in October 2010. A $4 million overdraft facility expired in September 2009. The facility is secured by a cross guarantee between REA Group Limited, realestate.com.au Pty Limited, Property Look Pty Limited, and Web Effect Pty Limited.

21 NON CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

	Consolidated 2010 $'000	2009 $'000
The balance comprises temporary differences attributable to:		
Intangible assets	**1,000**	1,593
Accrued income	**65**	-
Unrealised foreign exchange gains	**-**	10
Other	**23**	63
	1,088	1,666

Movements – Consolidated

	Intangible assets $'000	Accrued income $'000	Plant and equipment $'000	Unrealised foreign exchange gains $'000	Other $'000	Total $'000
At 30 June 2008	**3,070**	**118**	**114**	**59**	**7**	**3,368**
Charged/(credited) to the income statements	(1,843)	(118)	(114)	(49)	56	(2,068)
Foreign exchange adjustments	150	-	-	-	-	150
Acquisition of subsidiary	216	-	-	-	-	216
At 30 June 2009	**1,593**	**-**	**-**	**10**	**63**	**1,666**
Charged/(credited) to the income statements	(412)	65	-	(10)	(40)	(397)
Foreign exchange adjustments	(181)	-	-	-	-	(181)
At 30 June 2010	**1,000**	**65**	**-**	**-**	**23**	**1,088**

22 NON CURRENT LIABILITIES – PROVISIONS

	Consolidated	
	2010 $'000	2009 $'000
Employee benefits – long service leave	**536**	493
Employment severance indemnity	**470**	287
Rental lease incentive	**42**	80
	1,048	860

23 CONTRIBUTED EQUITY

	Consolidated		Consolidated	
	2010 Shares	2009 Shares	**2010 $'000**	2009 $'000
(a) Share capital				
Ordinary shares	**128,439,366**	127,255,057	**64,695**	56,002
Fully paid	**128,439,366**	127,255,057	**64,695**	56,002
Total consolidated contributed equity			**64,695**	56,002

(b) Capital risk management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders.

The Group's Dividend Policy provides scope for the Board to determine whether to pay a dividend, the timing of any dividend payment and the amount of any dividend payment. The Board bases its decision on existing financial data, forecasts and existing growth projects.

Other than through the Group's Dividend Reinvestment Plan (note 26), management has no current plans to issue further shares on the market.

Management monitors capital through the gearing ratio (net debt/total capital). At year end, the Group is in a positive net cash position. At 30 June 2010 the Group had a revolving cash advance facility of $10 million (2009: $14 million) with the Group's banker which enables management of the Group's working capital needs or acquisition funding.

The gearing ratios based on continuing operations at 30 June 2010 and 2009 were as follows:

	Consolidated	
	2010 $'000	2009 $'000
Total borrowings	**-**	520
Less: cash and cash equivalents	**88,163**	41,588
Net debt	**Not existing**	Not existing
Total equity	**138,850**	86,973
Total capital	**138,850**	86,973
Gearing ratio	**0%**	0%

The Group is not subject to externally imposed capital requirements.

24 RESERVES

	Consolidated	
	2010 $'000	2009 $'000
Reserves		
Share based payments reserve	687	675
Foreign currency translation reserve	(5,695)	(1,587)
Business combination reserve	568	568
	(4,440)	(344)

Share based payments reserve: This amount represents the value of the Long Term Incentives that have been granted as at balance date.

Currency Translation Reserve: The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of its overseas subsidiaries.

Business Combination Reserve: This amount is the result of the change in Sky Italia's non-controlling interest from 34% to 30.6% (30 April 2008) as the group purchased the remaining 10% stake from the founder of casa.it. Sky Italia is a subsidiary of News Corporation.

25 RETAINED EARNINGS

Movements in retained earnings were as follows:

	Consolidated	
	2010 $'000	2009 $'000
Opening retained earnings	36,429	35,483
Net profit for the year	50,657	946
Dividends paid during the year	(12,726)	-
Balance 30 June	74,360	36,429

26 DIVIDENDS

(a) Dividends not recognised at year end

On release of the 2010 accounts, the Directors declared a final ordinary dividend of $20.6 million (16 cents per fully paid share fully franked) to be paid on 15 October 2010 out of retained earnings as at 30 June 2010. The final dividend has not been recognised in the financial statements for the year ended 30 June 2010, but will be in subsequent financial reports. The FY10 dividend is also subject to a Dividend Reinvestment Plan which will allow shareholders to elect to receive fully paid ordinary REA shares at 2.5% discount to the weighted average market price calculated over a nominated period.

(b) Dividends paid during the year

A final ordinary dividend of $12.7 million (10 cents per fully paid share fully franked) was paid on 16 October 2009 out of retained earnings at 30 June 2009. For the FY09 dividend the directors introduced a Dividend Reinvestment Plan which allowed shareholders to elect to re invest the dividend and receive fully paid ordinary REA shares at a 2.5% discount to the weighted average market price calculated over a nominated period.

(c) Franked dividends

The franked portions of the final dividends recommended after 30 June 2010 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2011.

	Consolidated	
	2010 $'000	2009 $'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2009: 30%)	62,287	40,527
	62,287	40,527

The above amounts represent the balance of the franking account as at the end of the financial year net of tax refunds received, adjusted for franking credits that will arise from the payment of the amount of the provision for income tax.

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

The impact on the franking account of the dividend recommended by the directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of $8.8 million (2009: $5.4 million).

27 KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors

The following persons were directors of REA Group Limited during the financial year:

(i) Chairman non executive

Mr Richard J Freudenstein

(ii) Executive directors

Mr Greg Ellis, Managing Director & Chief Executive Officer

(iii) Non executive directors

Mr Roger Amos
Ms Kathleen Conlon
Ms Diana Eilert (appointed 30 June 2010)
Mr Alasdair MacLeod (until 31 January 2010)
Mr John D McGrath
Mr Jeremy Philips (until 30 June 2010)
Mr John Pittard (appointed 30 June 2010)
Mr Stephen P Rue
Mr Sam R White

(b) Other key management personnel

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. Following restructures to the senior management team and the decision to sell the UK and Dubai operations early in FY10, the following FY09 KMP were no longer deemed to hold KMP positions in FY2010: Mr Digregorio, Mr Pride and Ms Kent. The KMP at 30 June 2010 were:

Mr Greg Ellis	Chief Executive Officer
Mr Georg Chmiel	Chief Financial Officer
Mr Daniel Oertli	Chief Information Officer
Mr Daniele Mancini	Country Manager – Italy

There were no changes to KMP after reporting date and before the date the financial report was authorised for issue.

(c) Key management personnel compensation

	Consolidated	
	2010 $	2009 $
Short term employee benefits	**3,474,717**	3,339,507
Superannuation benefits	**50,069**	299,709
Long service leave	**24,112**	(23,675)
Long Term Incentive Plan (LTIP)	**230,979**	496,651
	3,779,877	4,112,192

(i) Share holdings

The numbers of shares in the company held during the financial year (directly and indirectly) by each director of REA Group Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2010 **Name** **Directors of REA Group Limited Ordinary Shares**	**Balance at the start of the year**	**Received during the year on the exercise of options**	**Other changes during the year**	**Balance at the end of the year**
Mr Roger Amos	2,363	-	32	2,395
Ms Kathleen Conlon	-	-	2,000	2,000
Mr John D McGrath	2,139,086	-	(1,998,105)	140,981
Mr Sam R White	564,211	-	2	564,213
Other key management personnel of the Group Ordinary Shares				
Mr Georg Chmiel	3,002	-	(2,531)	471

27 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

2009

Name Directors of REA Group Limited Ordinary Shares	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Mr Roger Amos	2,363	-	-	2,363
Mr John D McGrath	2,139,086	-	-	2,139,086
Mr Sam R White	16,249,045	-	(15,684,834)	564,211
Mr Simon T Baker	3,107,919	n/a	n/a	n/a
Other key management personnel of the Group Ordinary Shares				
Mr Georg Chmiel	2,795	-	207	3,002
Mr Shaun Di Gregorio	248,527	-	(242,065)	6,462

(d) Other transactions with key management personnel

Option holdings of key management (consolidated)

Other than performance rights granted under the LTIP (Note 36), there are no other options or rights over shares held by key management.

28 REMUNERATION OF AUDITORS

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

	Consolidated	
	2010 **$**	2009 $
(a) Ernst & Young		
Audit and other assurance services		
Audit and review of financial reports	**314,300**	330,000
Other assurance services		
Assurance related services	**49,000**	46,370
	363,300	376,370
(b) Related practices of Ernst & Young		
Audit and other assurance services		
Audit and review of financial reports	**29,300**	166,000
Total remuneration for audit and other assurance services	**29,300**	166,000

29 CONTINGENCIES

(a) Contingent liabilities

Claims

Various claims arise in the ordinary course of business against REA Group Limited and its subsidiaries. The amount of the liability (if any) at 30 June 2010 can not be ascertained, and the REA Group Limited entity believes that any resulting liability would not materially affect the financial position of the Group.

Guarantees

The loan facility is secured by a cross guarantee between REA Group Limited, realestate.com.au Pty Limited, Property Look Pty Limited, and Web Effect Pty Limited. Refer note 32(b).

30 COMMITMENTS

(a) Capital commitments

(i) Non cancellable operating leases

The Group has entered into commercial leases for office property and motor vehicles. These leases have remaining lives of up to 60 months. There are no restrictions placed upon the lessee by entering into these leases. Future minimum rentals payable under non cancellable operating leases as at 30 June are as follows:

	Consolidated	
Commitments for minimum lease payments in relation to non cancellable operating leases are payable as follows:	**2010 $'000**	2009 $'000
Within one year	**2,278**	2,634
Later than one year but not later than five years	**2,515**	3,215
Greater than five years	**209**	-
	5,002	5,849

(ii) Finance leases

The Group repaid all outstanding finance leases and hire purchase contracts for various hardware and software components during the year. The future minimum lease payments under finance leases together with the present value of the net minimum lease payments are shown below:

	Consolidated	
Commitments in relation to finance leases are payable as follows:	**2010 $'000**	2009 $'000
Within one year	**-**	500
Later than one year but not later than five years	**-**	36
Minimum lease payments	**-**	536
Future finance charges	**-**	(16)
Recognised as a liability	**-**	520
Representing lease liabilities:		
Current (note 17)	**-**	488
Non current (note 20)	**-**	32
	-	520

(b) Other commitments

Capital and other commitments relating to contracts entered into by the Group are as follows:

	Consolidated	
	2010 $'000	2009 $'000
Within one year	**6,201**	2,375
Later than one year and not later than five years	**3,741**	1,248
	9,942	3,623

These commitments relate to contracts to upgrade and expand the functionality of the Group's information technology platforms and systems.

(c) Remuneration commitments

Amounts disclosed as remuneration commitments include commitments arising from the service contracts of directors and executives referred to in note 36 that are not recognised as liabilities and are not included in the directors' or executives' remuneration.

31 RELATED PARTY TRANSACTIONS

(a) Parent entities

The parent entity within the Group is REA Group Limited. The ultimate parent entity of the Group is News Corporation, a resident of the United States of America, who owns 60.97% of REA Group Limited via its wholly owned subsidiary News Limited.

(b) Directors

The names of persons who were directors of the company at any time during the financial year are set out in note 27.

(c) Subsidiaries

Interests in subsidiaries are set out in note 32.

(d) Key management personnel

Disclosures relating to key management personnel are set out in note 27.

(e) Transactions with related parties

Sales of goods and services

Effective 28 June 2007, the Group entered into an online advertising agreement on commercial terms for 5 years with an option to extend it for another 10 years with realestate.com.au Financial Services Pty Limited after its disposal to Reva Services Pty Limited, a related entity of Mr S White. During the year, the Group sold residential subscriptions and other advertising products at arm's length terms and conditions to the franchisees and offices of the Ray White Group and to John McGrath Estate Agents. The Group also entered into an online advertising agreement on commercial terms with its associate Homeguru Pty Limited. During the year ended 30 June 2009, Internet Propertyfinder UK (a wholly owned subsidiary of REA UK until 7 August 2009) sold tax losses for $1,091k (GBP 533k) to News International Limited (a News Group entity) under UK tax legislation.

Purchases of goods

During the year, the Group utilised advertising and administrative services of the News Limited Group to the value of $nil (2009: $329k) and of SKY Italia to the value of $20k (2009: $28k) and News International of $nil (2009: 1,209k) on commercial terms and conditions. Apart from these purchases, News Limited Group promoted the REA Group by displaying the realestate.com.au logo at no charge in its real estate section of selected print publications. news.com.au and its sister sites (owned by News Limited Group) and realestate.com.au have in place a cross promotion (reciprocal link exchange) at no charge.

Other transactions

During the year REA Group Limited paid a dividend of $7,726k to News Limited, a wholly owned subsidiary of News Corporation (2009: $nil). News Limited elected to receive this dividend as shares via the Group's dividend reinvestment plan.

(f) Transactions within the consolidation group

To account for services provided by one entity on behalf of another entity, adjustments and cross charges are made at arm's length between the separate legal entities and branches. In addition, costs incurred by one group member on behalf of another group are on charged on commercial terms. Until the date of the sale of the UK operations on 7 August 2009 realestate.com.au Pty Limited charged a group entity, Propertyfinder Holdings Limited in the UK, a license fee for propertyfinder.com website based on a % of the online advertising revenues of $77k (2009: $543k).

(g) Loans to related parties

During the year a loan of $852k was made from Casa.it Srl to Sky Italia Srl. Interest received but not paid was $3.1k at an effective rate of 1.89% (based on Euribor plus 120 basis points) payable every 3 months. The loan is repayable on 19 January 2011.

32 CONTROLLED ENTITIES

(a) Investment in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2(b):

Name of entity	Country of incorporation	Equity interest		Investment	
		2010 %	2009 %	2010 $'000	2009 $'000
property.com.au Pty Limited	Australia	100	100	-	-
realestate.com.au Pty Ltd	Australia	100	100	31,494	32,170
homeguru Pty Limited	Australia	57.6	58.3	-	-
– ozhomevalue Pty Limited [1)]	Australia	100	100	-	-
Property Look Pty Limited	Australia	100	100	-	-
Hub Online Global Group	Australia	100	100	-	-
Web Effect International Pty Limited	Australia	100	100	-	-
NL/HIA JV Pty Limited	Australia	100	100	-	-
REA Group FZ LLC*	UAE	-	51	-	-
REA Group Hong Kong Limited	Hong Kong	100	100	131	-
Square Foot Limited	Hong Kong	100	100	-	-
Prime Media Limited	Hong Kong	100	100	-	-
REA Group China Limited	China	100	-	-	-
REA Group Europe Limited	UK	100	100	45,243	40,504
REA UK Limited (**)	UK	-	50	-	-
Propertyfinder Holdings Limited	UK	-	100	-	-
– Sherlock Publications Limited	UK	-	100	-	-
– Asserta Home Limited	UK	-	100	-	-
– UK Property Shop Limited	UK	-	100	-	-
– Propertyfinder.co.uk Limited	UK	-	100	-	-
– Internet Property Finder Limited	UK	-	100	-	-
– Propertyfinder Publications Limited	UK	-	100	-	-
REA Italia Srl.	Italy	69.4	69.4	-	-
– casa.it Srl [2)]	Italy	100	100	-	-
atHome Group S.A	Luxembourg	100	100	-	-
– atHome International S.A.	Luxembourg	100	100	-	-
– Altowin S.A	Belgium	100	100		
– REA Group European Production Centre S.A.	Luxembourg	100	100		
				76,868	72,674

*Sold with effect from 31 July 2009

**REA Group Europe Limited controlled all UK subsidiaries via a majority on the board and consequently fully consolidated the financial accounts since acquisition date. Sold 7 August 2009. All subsidiaries owned by REA UK Limited were 100% owned by REA UK Limited.

[1)] ozhomevalue Pty Limited is 100% owned by homeguru Pty Limited

[2)] casa.it Srl is 100% owned by REA Italia Srl

32 CONTROLLED ENTITIES (CONTINUED)

(b) Deed of Cross Guarantee

Pursuant to ASCI Class Order 98/1418, relief has been granted to realestate.com.au Pty Limited from the Corporations Act 2001 requirements for the preparation, audit and lodgment of its financial report.

As a condition of the Class Order, REA Group Limited and realestate.com.au Pty Limited (the Closed Group) entered into a Deed of Cross Guarantee on 26 May 2009. The effect of the deed is that REA Group Limited guarantees to each creditor payment in full of any debt in the event of winding up of realestate.com.au Pty Limited under certain provisions or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that REA Group Limited is wound up or if it does not meet its obligations under the terms of overdrafts, leases or other liabilities subject to the guarantee.

The summarised income statement, balance sheet and retained earnings of REA Group Limited and realestate.com.au Pty Limited as members of the Closed Group is as follows:

	2010 $'000	2009 $'000
Consolidated income statement		
Profit from continuing operations before income tax	72,343	85,471
Income tax expense	(22,256)	(18,315)
Profit after tax from continuing operations	50,087	67,156
Retained earnings at beginning of period	60,944	46,084
Dividends provided for or paid during the year	(12,726)	(52,296)
Retained earnings at end of period	**98,305**	**60,944**
ASSETS		
Current assets		
Cash and cash equivalents	82,936	34,165
Trade and other receivables	29,942	33,475
Other current assets	1,619	3,620
Total current assets	**114,497**	**71,260**
Non current assets		
Investments in subsidiaries	71,462	66,593
Plant and equipment	5,372	4,731
Intangible assets	8,222	2,027
Deferred tax assets	3,368	2,466
Total non current assets	**88,424**	**75,817**
Total assets	**202,921**	**147,077**
LIABILITIES		
Current liabilities		
Trade and other payables	18,961	8,675
Interest bearing loans and borrowings	-	439
Current tax liabilities	8,755	9,863
Provisions	2,197	1,904
Other current liabilities	8,656	7,975
Total current liabilities	38,569	**28,856**
Non current liabilities		
Interest bearing loans and borrowings	-	-
Deferred tax liabilities	88	74
Provisions	578	526
Total non current liabilities	**666**	**600**
Total liabilities	**39,235**	**29,456**
Net assets	**163,686**	**117,621**

32 CONTROLLED ENTITIES (CONTINUED)

	2010 $'000	2009 $'000
EQUITY		
Contributed equity	64,695	56,002
Reserves	687	675
Retained earnings	98,304	60,944
Parent interest	**163,686**	**117,621**
Non-controlling interest	**-**	**-**
Total equity	**163,686**	**117,621**

33 PARENT ENTITY INFORMATION

Information relating to the parent entity, REA Group Limited:

		Consolidated
	2010 $'000	2009 $'000
Current assets	79,263	11,068
Non-current assets	76,965	72,908
Total assets	156,228	83,976
Current liabilities	8,755	9,940
Non-current liabilities	66	-
Total liabilities	8,821	9,940
Net assets	**147,407**	**74,036**
Contributed equity	64,695	56,002
Retained earnings	82,025	17,359
Reserves	687	675
Total shareholders' equity	**147,407**	**74,036**
Profit of the parent entity	77,393	21,551
Total comprehensive income of the parent entity	77,393	21,551

There were no contractual commitments or contingent liabilities by the parent entity for the acquisition of plant or equipment during the current financial year (2009: $nil).

For details of any guarantees entered into by the parent entity in relation to the debts of its subsidiaries refer to note 32.

34 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Consolidated	
	2010 $'000	2009 $'000
Profit / (Loss) for the year	50,643	(34,638)
Depreciation and amortisation continued operations	7,088	7,348
Impairment – continued operations	-	7,995
Depreciation and amortisation – discontinued operations	-	1,234
Impairment – discontinued operations	-	46,460
Net (profit)/loss on disposal of plant and equipment	236	(451)
Gain on sale of UK operations	(1,277)	-
Gain on sale of Dubai operations	(302)	-
Long Term Incentive Plan expenses	12	675
Other Non cash adjustment	(701)	269
Change in assets and liabilities		
(Increase) / decrease in trade and other receivables	(2,191)	80
(Increase) / decrease in other current assets	1,779	(631)
(Increase) / decrease in assets held for sale	7,119	(2,393)
(Increase) / decrease in deferred tax assets	(1,044)	(961)
(Decrease) / increase in other current liabilities	1,364	1,237
(Decrease) / increase in liabilities held for sale	(3,227)	3,227
(Decrease) / increase in deferred tax liabilities	(578)	(1,918)
(Decrease) / increase in current tax liabilities	(1,298)	3,846
(Decrease) / increase in trade and other payables	2,796	172
(Decrease) / increase in provisions	524	246
Net cash inflow from operating activities	60,943	31,797

35 EARNINGS PER SHARE

	Consolidated	
	2010 $'000	2009 $'000
(a) Basic earnings per share		
From continuing operations attributable to the ordinary equity holders of the company	39.1	25.6
From discontinued operation	0.4	(24.9)
Total basic earnings per share attributable to the ordinary equity holders of the company	39.5	0.7
(b) Diluted earnings per share		
From continuing operations attributable to the ordinary equity holders of the company	39.1	25.6
From discontinued operation	0.4	(24.9)
Total diluted earnings per share attributable to the ordinary equity holders of the company	39.5	0.7

(c) Weighted average number of shares used as the denominator	Consolidated	
	2010 Number	2009 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	128,088,940	127,255,057
Effect of share options on issue during the financial year	-	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	128,088,940	127,255,057

There is no effect of the share options granted under the Long Term Incentive Plan (refer note 36) on the weighted average number of ordinary shares as shares issued under this plan will be purchased on market.

36 SHARE BASED PAYMENTS

(a) Long Term Incentive Plan

In the FY08 financial year, the Group established and announced a long term incentive plan for executives identified by the Board. The plan is based on the grant of performance rights that vest into shares on a 1 to 1 basis at no cost to the employee subject to performance hurdles. Settlement of the performance rights is made in ordinary shares.

The performance measures selected by the Remuneration and Nomination Committee are based upon Group revenues and EBIT for all executives responsible for the Group. The actual performance is compared to the budgeted measures for the performance period.

The initial offer (Plans 1a and 1b) have not vested as performance hurdles were not met and all rights under these plans have been cancelled with exception of an exercise of performance rights at board discretion to Mr Digregorio at the time of his resignation.

Under Plan 2 a total of 155,645 performance rights vesting on 1 July 2011 were granted on 1 July 2008 with a total value at grant of $684,838 with an additional 492 granted during the 2010 financial year with a total value of $2,165 with a total value of $687,003.

Under Plan 3 a total of 125,350 performance rights vesting on 1 July 2012 were granted on 1 July 2009 with a total value at grant of $717,002 of which 5,245 were cancelled during the 2010 financial year with a value of $30,001 with a total value of $687,000.

If the executive leaves during or before the performance period due to illness, redundancy or death, any granted rights which the Board determines should not vest, will lapse. If the executive leaves due to other reasons, the granted rights may be forfeited at the Board's discretion. If the executive leaves for any reason, any rights not yet granted will also be forfeited.

Plan	Expiry date	Balance at start of the year	Granted during the year	Exercised during the year	Forteited/ cancelled during the year	Balance at end of the year
		Number	Number	Number	Number	Number
Plan 1a	1 July 2009	55,233	-	(10,988)	(44,245)	-
Plan 1b	1 July 2010	59,611	-	-	(59,611)	-
Plan 2	1 July 2011	155,645	492	-	-	156,137
Plan 3	1 July 2012	-	125,350	-	(5,245)	120,105
Total		270,489	125,842	(10,988)	(109,101)	276,242

Rights are vested after the performance period. In case of under or over performance the eligible rights will be adjusted as per below:

Payment Scale

Target achieved	% LTIP to be paid
<80%	None
80% – 100%	80% – 100% vesting
100% – 105%	100% vesting
>105% – 120%	>105% – 120% vesting
>120%	120% vesting

Rights due under Plan 1a and Plan1 b were cancelled as performance targets were not achieved. As all other performance periods lie in the future, no performance rights are exercisable (or have been exercised) at balance date.

36 SHARE BASED PAYMENTS (CONTINUED)

	Grant Date	Performance Period	Vesting date (and earliest exercise date)	Number of Rights granted	Value of Rights as at grant date $
Plan 2	1 July 2008	FY2011	1 July 2011	155,645	684,838
Plan 3	1 July 2009	FY2012	1 July 2012	125,350	717,002

The fair value of each performance right is estimated on the grant date using a Monte Carlo simulation. The valuation was performed independently by KPMG. So far no performance hurdles have been met as the performance period lies in the future.

	Weighted average share price at measurement date	Exercise price	Expected volatility	Risk free interest rate	Expected life of performance right
Plan 1a initial offer	$5.15 (22 May 2008)	$0.00	40.5%	6.673%	13 months
Plan 1b initial offer	$5.15 (22 May 2008)	$0.00	40.5%	6.673%	25 months
Plan 2	$4.40 (1 July 2008)	$0.00	38.4%	5.785%	37 months
Plan 3	$5.72 (1 July 2009)	$0.00	38.4%	5.785%	37 months

	Simulated share price at vesting date	Weighted average fair value per right at grant date
Plan 1a initial offer	$5.54	$5.16
Plan 1b initial offer	$5.92	$5.16
Plan 2	$5.23	$4.40
Plan 3	$6.54	$5.72

The dividend yield of 0.0% applied reflects the fact that no dividend has been paid at the date of the grant and that the expected life of the right is up to the vesting date. The expected volatility is based on the Group's historic volatility and is designed to be indicative of future trends, which may also not be the actual future outcome.

The long term incentive plan resulted in a net share based compensation expense of $12,000 after the write-back of the cancelled Plan 1a and Plan 1b of the long term incentive plan (2009: $605,520)

37 EVENTS AFTER THE BALANCE SHEET DATE

From the end of the reporting period to the date of this report, no matter or circumstance has arisen which has significantly affected the operations of the Group, the results of the operations or the state of affairs of the Group.

DIRECTORS' DECLARATION

For the year ended 30 June 2010

In the Directors' opinion:

a) the financial statements and notes of the consolidated entity set out on pages 34 to 72 are in accordance with the Corporations Act 2001, including:

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

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

b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2a);

c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2010; and

e) as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 32 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

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

Mr Richard J Freudenstein
Director
Melbourne, 19 August 2010

Ernst & Young Building
8 Exhibition Street
Melbourne VIC 300 Australia
GPO Box 67 Melbourne VIC 3001
Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
www.ey.com/au

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF REA GROUP LIMITED

REPORT ON THE FINANCIAL REPORT

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

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORT

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

AUDITOR'S RESPONSIBILITY

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

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

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

INDEPENDENCE

In conducting our audit we have met the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

AUDITOR'S OPINION

In our opinion:

1. the financial report of REA Group Limited is in accordance with the Corporations Act 2001, including:
   i) giving a true and fair view of the consolidated entity's financial position at 30 June 2010 and of its performance for the year ended on that date; and
   ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in pages 9 to 13 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

AUDITOR'S OPINION

In our opinion the Remuneration Report of REA Group Limited for the year ended 30 June 2010, complies with section 300A of the Corporations Act 2001.

Ernst & Young

Ernst & Young

David McGregor
Partner
Melbourne, 19 August 2010

SHAREHOLDER INFORMATION

For the year ended 30 June 2010

The shareholder information set out below was applicable as at 15 September 2010.

A. Distribution of equity securities

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

Holding	Shares
1 – 1000	480,431
1,001 – 5,000	2,246,753
5,001 – 10,000	1,379,340
10,001 – 100,000	4,660,883
100,001 and over	119,671,959
	128,439,366

There were 126 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
News Limited	78,308,842	61.0
National Nominees Limited	8,639,920	6.7
J P Morgan Nominees Australia Limited	7,276,992	5.7
UBS Nominees Pty Ltd	6,022,821	4.7
Cogent Nominees Pty Limited	4,660,768	3.6
HSBC Custody Nominees (Australia) Limited	4,021,992	3.1
Citicorp Nominees Pty Limited	3,656,953	2.9
Effie Holdings Pty Ltd	1,349,319	1.1
ANZ Nominees Limited	865,396	0.7
Meruma Pty Ltd	564,213	0.4
Holdex Nominees Pty Ltd	556,481	0.4
MF Custodians Limited	501,354	0.4
Mirrabooka Investments Ltd	475,000	0.4
STB Holdings Pty Ltd	420,000	0.3
Smallco Investment Manager Ltd	414,927	0.3
Amcil Limited	334,337	0.3
RBC Dexia Investor Services Australia Nominees Pty Limited	292,803	0.2
Mr Vivian Faram Findlow	282,037	0.2
Mr Thomas Sabljak	177,452	0.1
Queensland Investment Corporation	156,650	0.1
	118,978,257	92.6

C. Substantial holders

Substantial holders in the company are set out below:

	Number held	Percentage
News Ltd	78,308,842	61.0%
National Nominees Limited	8,639,920	6.7%
JP Morgan Nominees Limited	7,276,992	5.7%

CORPORATE INFORMATION

ABN 54 068 349 066

Directors

Mr Richard J Freudenstein BEc, LLB (Hons)
Chairman

Mr Roger Amos FCA, MAICD

Ms Kathleen Conlon BA(ECON)(DIST), MBA, MAICD

Ms Diana Eilert BA(ECON)(DIST), MBA, FAICD

Mr Greg Ellis BBus

Mr John D McGrath

Mr John Pittard BSc

Mr Stephen P Rue CA, BBS, DPA

Mr Sam R White BCom, LLB

Secretary

Ms Moana Weir BA, LLB(Hons), MAICD

Notice of annual general meeting

The annual general meeting of REA Group Limited will be held at:

The Westin, Melbourne
205 Collins Street
MELBOURNE, VIC 3000

Time: 12pm (midday)
Date: 24 November 2010

Principal registered office in Australia

Level 1, 678 Victoria Street
RICHMOND, VIC 3121 Australia
Tel: +61 3 9897 1121 Fax: +61 3 9897 1114

Share register

Computershare Registry Services Pty Limited
Yarra Falls
452 Johnson Street
ABBOTSFORD, VIC 3067 Australia
Tel: +61 3 9415 5000 Fax: +61 3 9473 2500

Auditor

Ernst & Young
8 Exhibition Street
MELBOURNE, VIC 3000 Australia

Solicitors

Mallesons Stephen Jaques
Level 50, Bourke Place
600 Bourke Street
MELBOURNE, VIC 3000 Australia

Bankers

National Australia Bank Limited

Stock exchange listings

REA Group Ltd shares are listed on the Australian Securities Exchange.

Website address

www.rea-group.com

Designed and produced by Hayman Design

ISO 14001 EMS RESPONSIBLE FORESTRY PRACTICES ELEMENTAL CHLORINE FREE ACID FREE

This report is printed on paper manufactured using the ISO14001 Environmental Management System, made from fibre from pulp suppliers who use sustainable forestry techniques and manufactured using elemental chlorine free (ECF) pulps.