REA Group Limited Annual Report 2012

REA

Customer focus,
Innovation,
Leadership.

Annual Report 2012

REA Group

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Milan, Italy

About REA Group

REA Group Limited (ASX: REA) is a market-leading digital advertising business specialising in property. Established in Melbourne in 1995, the Group operates websites in Australia, Europe and Hong Kong.

We aim to be globally known as the leading, most innovative digital marketing company for property, and the first choice for agents, advertisers and consumers in the markets we serve.

REA Group Limited
ABN 54 068 349 066

Sydney, Australia

Our commitment to innovation, combined with an unrelenting focus on the needs of our customers, has made us the market-leading digital media business we are today. We continue to invest in our customers and in delivering the best user experience to ensure our long-term success.

Hong Kong Island, Hong Kong

Chairman's Message

"From my experience in Australia and internationally, REA Group is unique in the digital media industry and is at the cutting-edge of digital real estate marketing."

It gives me great pleasure to present the 2012 Annual Report, my first report to shareholders as Chairman of REA Group. I was honoured to accept the position in April following Richard Freudenstein's decision to step-down after five successful years as Chairman and continue as a valued member of the Board.

REA Group delivered excellent results for the 2012 financial year as a result of our robust business model and responsiveness to the needs of our customers. As a market leader, we continue to innovate and invest in new technology and products to help our customers achieve their business goals and ensure our sites offer the best user experience. Our success in delivering on this is evident in our strong financial performance.

Financial Results
REA Group achieved growth throughout its operations in Australia, Europe and Hong Kong in 2012.

Financial highlights for the year included:

- Revenue of $277.6 million, an increase of 16%
- EBITDA of $126 million, up 22%
- Net Profit of $86.8 million, up 29%
- Cash grew to $181.6 million, up 32%
- Earnings Per Share of 66.2 cents, up 25%

Our Italian business, casa.it, became a wholly-owned subsidiary of REA Group in December 2011 following the acquisition of a minority interest and recorded its first full-year positive EBITDA during the period.

Increased Shareholder Returns
The Board is very pleased to reward shareholders with a 2012 final dividend of 20.5c cents per share fully franked, an increase of 28% on the 2011 final dividend. Total dividend for the year is 33c cents per share fully franked, up 27% on 2011. This dividend represents approximately 50% of full year Net Profit, at the top of our dividend payout ratio. The Board determined the Dividend Reinvestment Plan (DRP) would not operate for the 2012 final dividend.

REA Group once again outperformed the S&P/ASX 200 Index in 2012. Our market capitalisation averaged $1.8 billion during the period, up from $1.5 billion last year.

Changes to the Board
I was delighted to join the Board as a non-executive director in February 2012 and take on the role of Chairman in April 2012, succeeding Richard Freudenstein. On behalf of my Board colleagues, I would like to congratulate Richard on his outstanding commitment and leadership over five years as Chairman. As Richard remains a non-executive director of REA Group, we are fortunate to continue to benefit from his wealth of experience.

This year the Board farewelled two directors, Sam White in January 2012 and Diana Eilert in February 2012. Sam was a long-serving director having joined the Board in 2002, while Diana joined the Board in 2010. The Board would like to thank Sam and Diana for their highly-valued contributions to the Group's success and wishes them well.

Future Directions
Since joining the REA Group Board, I have been extremely impressed by the quality of the business and its people. From my experience in Australia and internationally, REA Group is unique in the digital media industry and is at the cutting-edge of digital real estate marketing.

Despite our strong market position, the Board remains alert to potential headwinds from an increasingly competitive market environment. We believe the Group's commitment to innovation is critical to its ongoing success, particularly given the continued structural shift to online in Australia and international markets and technological changes such as the increasing role of mobile devices.

The Board has been reviewing gender diversity and diversity as a whole across the organisation and we were delighted that REA Group this year received the 2012 Equal Opportunity for Women in the Workplace Agency's (EOWA) Employer of Choice for Women citation for the first time.

In closing, the Board would like to sincerely thank Greg Ellis and his talented team for their passion and hard work this year to ensure REA Group's continued growth in a challenging environment. We would also like to thank our customers for their support and feedback which drives us to strive harder and inspires us to innovate. Finally, we thank you, our shareholders, for your commitment to our business. I look forward to sharing REA Group's success with you in 2013.

Hamish McLennan
Chairman

Managing Director & CEO's Review

I am delighted to report that the Group achieved excellent growth across all areas of our business in 2012. Together, our businesses in Australia, Europe and Hong Kong achieved a 16 per cent increase in revenue, 22 per cent increase in EBITDA and 29 per cent increase in net profit.

These results - achieved in challenging market -support our strategy to invest in our core businesses and deliver services to meet the needs of people throughout the property cycle, whether they are renting, buying their first home, upgrading, investing or renovating.

We are also realising the benefits of our diversified digital media business model with outstanding growth rates from our Italian business and our Australian developer and display media business in particular.

With continued softening in the Australian property market, this year we increased our focus on delivering added value to our real estate agent customers to help improve their profitability. This included new and enhanced product offerings, extended listing duration, technology innovations and education initiatives.

Australia
In Australia, revenue from residential and commercial value-added listing products continues to be a key growth driver. Value-added listings help listings stand-out to potential buyers and are paid for by the vendor. In 2012, we successfully launched a new mid-range residential listing product, 'Highlight', as well as our new 'Diamond' subscription for residential agents.

Australian revenue increased by 15 per cent and Average Revenue Per Agent (ARPA) increased by 16 per cent in 2012. We are very pleased with this growth, particularly given the state of the Australian property market and resulting agency contraction and consolidation which led to a slight decrease in agent numbers.

realestate.com.au maintained its lead over our nearest competitor and accounted for 61 per cent of total minutes Australians spent on residential property portals in June 2012. [1]

Mobile continues to be an important growth platform for our business and we are excited by the opportunities it presents to deliver more targeted content and advertising. With mobile and tablet visits to realestate.com.au now accounting for more than one third of all visits, and over 1 million downloads of realestate.com.au apps, we are continuing to invest in our mobile capability.

REA Media was once again a standout performer, achieving 31 per cent revenue growth and becoming a top 10 publisher by agency bookings.[2] This growth demonstrates the exceptional opportunity realestate.com.au's Unique Audience of 2.9 million represents to developers and display advertisers.

International
We were delighted to increase our ownership of Italy's market-leading property site, casa.it, to 100 per cent in December 2011. The business continues to deliver excellent growth and this year achieved its first full-year positive EBITDA. Casa.it recorded outstanding revenue growth of 44 per cent and ARPA growth of 44 per cent (in local currency).

Our Luxembourg-based athome business operates the number one property site in Greater Luxembourg as well as sites in France and Germany. Pleasingly, it recorded 22 per cent revenue growth (in local currency) and 16 per cent ARPA growth in 2012, with France contributing significant growth in paying agents.

In Hong Kong, our squarefoot.com.hk business saw a significant improvement in EBITDA during the period as we benefited from reduced production costs due to the consolidation of print publications. While this also resulted in a reduction in ARPA, the business experienced significant growth, including a 41 per cent increase in online revenues, 57 per cent rise in agent numbers, and a 48 per cent increase in traffic in the 12 months to June 2012.

"I am very proud of our team of over 600 people across the globe who focus on exceeding the expectations of our customers and consumers every day."

Our people
I am very proud of our team of over 600 people across the globe who focus on exceeding the expectations of our customers and consumers every day. I extend my warmest thanks to the entire team for an outstanding effort.

On behalf of the executive team, I would also like to express our appreciation to the Board for their guidance and support in 2012. We welcome Hamish McLennan to the role of Chairman and thank Richard Freudenstein for his leadership of the Board over the past five years.

Greg Ellis
CEO and Managing Director

1. Nielson Online Ratings 2. Standard Media Index (SMI)

2·9 Million

Average realestate.com.au monthly unique audience in 2012[1]

Facts and figures

1·8m

Average casa.it monthly unique audience in 2012[2]

1·1m

realestate.com.au mobile downloads as at 11 July 2012

36%

of total visits to realestate.com.au now from mobile & tablet devices[3]

61%

of total minutes australians spent on residential property portals in June 2012 was on realestate.com.au[1]

[1] NIELSEN ONLINE RATINGS.
[2] NIELSON ONLINE, NETVIEW
[3] REA GROUP INTERNAL STATISTICS

Group Business Summary

REA Group is a market-leading digital advertising business specialising in property. In 2012, we achieved excellent growth throughout our operations in Australia, Europe and Hong Kong.

REA Group™

As a result of our responsiveness to customer needs and continued investment in technology and innovation, Group revenue grew from $238.4 million in 2011 to $277.6 million in 2012, an increase of 16%. EBITDA rose 22% from $103.2 million in 2011 to $126 million in 2012 and Net Profit increased by 29% from $67.5 million in 2011to $86.8 million in 2012.

Our cash balance increased by 32% from $137.5 million in 2011 to $181.6 million in 2012 and earnings per share increased by 25% from 53.1 cents in 2011 to 66.2 cents in 2012.

REA Group shareholders were rewarded with a final dividend of 20.5 cents per share fully franked, an increase of 28% on the 2011 final dividend. The total dividend for 2012 was 33 cents per share fully franked, an increase of 27% on the 2011 financial year.

Revenue up
16%
to $277.6m

EBITDA increased
22%
to $126m

Net Profit up
29%
to $86.8m

Cash grew
32%
to $181.6m

Earnings per share increased
25%
to 66.2¢

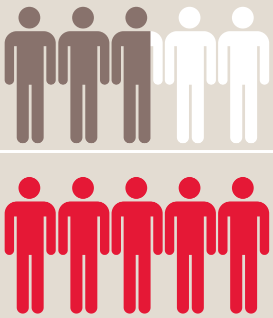
Australian Business Summary

REA Group operates Australia's No. 1 residential and commercial property sites, realestate.com.au and realcommercial.com.au, and serves the developer and display media markets through REA Media.

realestate.com.au
Australia's No.1 property site™

FY2011	FY2012
REVENUE $135.8m	up 12% to $152m

UNIQUE AUDIENCE



Nearest competitor 1.6m

realestate.com.au 2.9m

realestate.com.au achieved an average monthly Unique Audience of 2.9 million in 2012 (approx. 1.8 times that of its nearest competitor) and accounted for 61% of total minutes Australians spent on residential property portals in June 2012 (nearest competitor 17%). SOURCE: NIELSEN ONLINE RATINGS.

realestate.com.au revenue grew by 12% to $152 million in 2012, representing 60% of total Australian revenue. The business recorded a 13.2% increase in Average Revenue Per Agent (ARPA) this year due to increased take-up of value-added products including the new 'Highlight' mid-range listing product and the new Diamond subscription for residential agents. Mobile continues to be a growth platform for realestate.com.au and realestate.com.au mobile applications surpassed 1.1 million downloads in July 2012.

realcommercial.com.au
Australia's No.1 commercial property site™

FY2011	FY2012
REVENUE $23.0m	up 17% to $26.6m

realcommercial.com.au achieved an average monthly Unique Audience of 169,300 during 2012 (SOURCE: NIELSEN ONLINE RATINGS) and increased revenue by 17% to $26.6 million. Increased take-up of realcommercial.com.au's value-added listing products, 'Elite' and 'Elite Plus', was a significant driver of revenue growth. Recognising the increasing role of mobile technology, in July 2012 the business launched Australia's first dedicated commercial property iPhone® app.

REA Media™

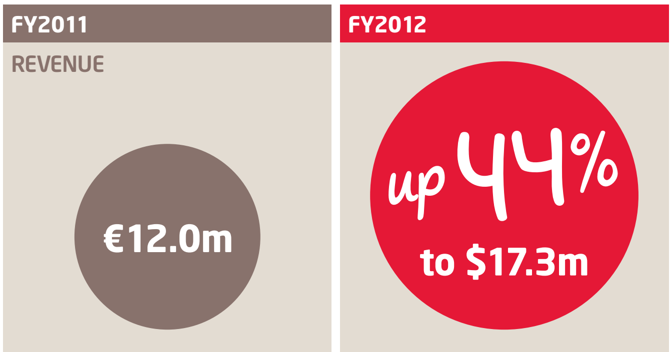
FY2011	FY2012
REVENUE $52.0m	up 31% to $67.6m

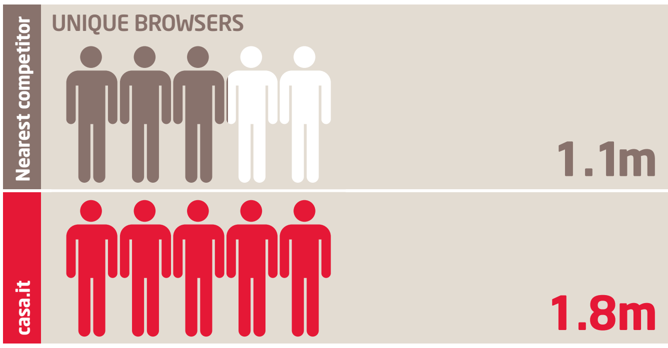
REA Media achieved excellent growth in 2012, recording a 31% increase in display media and developer revenues to $67.6 million. Developer display advertising was a significant source of growth, with REA Media launching a value-added product for the development market during the period. The product, 'Project Profiles', enables developers to showcase projects with improved functionality such as embedded video. REA Media is now a top 10 publisher by agency bookings. SOURCE: SMI JUNE 2012.

International Business Summary

REA Group's international operations include Italy's market-leading residential property site, casa.it, as well as property sites in Luxembourg, France, Germany and Hong Kong.

casa.it
il portale immobiliare n°1 in Italia





Traffic to casa.it increased to an average monthly Unique Audience of 1.8 million in 2012, approximately 1.6 times that of its nearest competitor. SOURCE: NIELSON ONLINE, NETVIEW.

The business became a wholly-owned subsidiary of REA Group in December 2011 and recorded its first full-year positive EBITDA during 2012. Revenue increased by 44% to €17.3m and monthly average revenue per agent grew by 44% (in local currency), with the new 'Diamond Package' for agents driving significant growth.

casa.it's award-winning social media strategy saw it named one of the 10 most popular brands in Italy this year. SOURCE: PINTEREST, ITALY.

squarefoot.com.hk™

squarefoot.com.hk is REA Group's English and Chinese-language property site in Hong Kong. Traffic to squarefoot.com.hk grew by 48% during the period to 165,579 unique browsers in June 2012, with the Chinese language sites attracting 51% of all visitors (SOURCE: REA GROUP INTERNAL STATISTICS). Agent numbers increased by 57% in 2012.

squarefoot's print publications were consolidated to a single publication available in English and Chinese languages. Whilst there was a resulting decrease in ARPA, the change led to a significant improvement in EBITDA due to reduced production costs and a 41% increase in online revenues due to the increased focus on online growth.

atHome.lu
N° 1 de l'immobilier sur Internet

immoRegion.fr
Annonces immobilières 100% régionales

atHome.de
Das Immobilienportal Ihrer Region

The athome business operates the number one property site in Greater Luxembourg as well as sites in France and Germany. It recorded 22% revenue growth (in local currency), 16% ARPA growth and 10% growth in paying agents during the period. France continues to represent an excellent growth opportunity, achieving a 27% increase in agent numbers in 2012.


realestate.com.au
Australia's No.1 property site
Search property.
realestate.com.au
Australia's No.1 property site

AGENT INNOVATION EDUCATIONAL SERIES, SYDNEY, MAY 2012.

Investing in our Customers' Success

From our early beginnings, REA Group's business has been about helping our customers to be even more successful.

Today, this means actively helping our real estate customers to transform their businesses for the digital world and use digital media as a strategic advantage.

Throughout the year we hosted and participated in events across Australia and internationally to help agents and other advertisers keep up to date with the latest digital media and property trends.

This year we introduced the Agent Innovation educational series for residential agents in Sydney, with leading real estate trainers challenging and inspiring hundreds of agents to take a fresh approach to prospecting, listing and selling property. The series was a resounding success and we are now looking at opportunities to extend the program.

In Queensland, we held events to help residential agents plan for the next 12 to 24 months and achieve profit and growth in a slower market and we had a prominent presence at the Australian Real Estate Conference (AREC) 2012 on the Gold Coast.

We also hosted events for property developers and their advertising agencies in Queensland, New South Wales and Victoria to hear the latest market trends and outlook from a leading property development expert and held a follow-up series on converting online leads to sales.

Leadership through Innovation

We recognise we need to earn our market-leading position by continuing to deliver the best experience for our customers and consumers.

That is why innovation is at the heart of our business.

Like a number of international digital media leaders, once a quarter we host a 'hack day', where people from across the business have the opportunity to submit an idea and spend two days working on an invention to meet a business need.

Initially involving members of the technology team, Hack Day now features collaborative teams with members from functional areas as diverse as IT, finance, marketing, sales account management and customer service.

The Home Ideas section of the realestate.com.au website, launched in October 2011, is one example of a Hack Day innovation that is now delivering value to consumers.

Home Ideas was designed to assist consumers in the home improvement phase of the property cycle who visit realestate.com.au for ideas. It enables them to browse photos by a category or specific 'tag' such as a living room fireplace or timber floorboards.

The section also provides opportunities for advertisers wishing to reach home renovators.

Another Hack Day innovation saw the time taken for agents to list a new property or update an existing listing dramatically reduced. The change to XML file processing has ensured that most agent listings are live on realestate.com.au within 10 minutes of being submitted, where previously it could take up to four hours.

Hack Day is an exciting way to focus our top talent on inventions that are often outside their area of everyday responsibility, yet add real value for our customers and consumers.

Top: Hack Day, August 2012.
Lower: Home Ideas final site.

Our People & Culture

We employ over 600 passionate and talented individuals across Australia, Europe and Hong Kong, each of whom is committed to our values of passion, collaboration, integrity, innovation and accountability.

Our strong employee engagement and high performance culture have been externally benchmarked against international peers and we are aligned with the top 20 high-performing companies in the world.

Professional Development, Health & Wellbeing
We support the professional development, health and wellbeing of our employees through a wide range of initiatives. In 2012, Australia's first Tour de France winner, Cadel Evans, played a role in this, inspiring the team with his passion, commitment and strong team ethic. Cadel led a 36 kilometre ride through Victoria's picturesque town of Barwon Heads for 35 lucky Australian employees selected for representing REA Group's values.

Throughout the year, our people participated in activities including workplace yoga, running groups, teamsports, meditation, cycle commuting skill training, community and charity cycling events including Ride to Work Day, the MS Summer Cycle in Melbourne and the Hands Across the Water ride in Thailand, and the Australian Corporate Games.

Diversity
We believe workplace diversity is an investment in the creation of a sustainable and enduring business which can deliver long-term shareholder value.

In March 2012, our commitment to diversity was recognised with the 2012 Equal Opportunity for Women in the Workplace Agency's (EOWA) Employer of Choice for Women citation for the first time. The citation was awarded based on a range of criteria including our policies to support women across the organisation and our gender-inclusive culture championed by the CEO and driven by senior executives.

Simone Carroll, REA Group's General Manager of Human Resources, says the objective of diversity is to unite different perspectives in pursuit of a common goal. "In our business, the power of diversity is bringing together independent thinkers to deliver the best outcomes for the customers and consumers we serve. This means encouraging and rewarding difference at every point in the employee journey, including recruitment."

REA Group's Chief Financial Officer, Jenny Macdonald, joined the Group in March 2011 after 15 years in senior finance roles. According to Jenny, diversity is supported at all levels of the Group. "Having started my career as one of two women out of 35 graduates in an accounting firm, it is exciting to see what can be achieved when you embrace diversity, equality and flexibility. This attracts top talent to the business, each of whom is empowered to do their best by a culture that is transparent rather than hierarchical. There are no barriers to doing our best work – it is up to each of us."

Greg Ellis, REA Group Managing Director & CEO, says the continued growth of the company provides great opportunities for talented people to advance their careers with a market-leading digital business. "We are proud of all our employees – men and women – and truly believe that we have the best in the business when it comes to digital expertise."

Awards & Achievements
REA Group awarded 2012 EOWA Employer of Choice for Women citation.

REA Group named one of the top 200 companies in the Forbes Asia 2011 'Best Under A Billion' list (by annual revenue in USD).

realestate.com.au's universal iPhone® and iPad®* app won a prestigious 'Mobie' for Mobile Innovation in the 2012 Australian Mobile Awards (August 2012).

*'iPhone' and 'iPad' are trademarks of Apple Inc, registered in the US and other countries.

Our Directors

Mr Hamish McLennan
Non-executive director appointed 21 February 2012. Appointed Chairman 10 April 2012. Age 46.

Mr McLennan is the Executive Vice President, Office of the Chairman at News Corporation, responsible for developing and enhancing its large-scale global brand and media partnerships. Prior to joining News Corporation, Mr McLennan was the global Chairman and CEO of Young & Rubicam, which is one of the world's largest advertising networks and part of WPP, the world's largest communications services group. Mr McLennan joined Young & Rubicam in 2002 as Chairman and CEO of Y&R Brands Australia/New Zealand, one of the largest marketing services groups in Australasia. He has previously served on the Boards of directors for the United Negro College Fund (UNCF) and the US Ad Council based in New York.

Mr McLennan is Chairman of the Board and a member of the Board's Human Resources Committee.

Mr Greg Ellis BBus
Managing director and Chief Executive Officer appointed 23 September 2008. Age 50.

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 Group 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.

Interests in shares and options*
51,836 ordinary shares in REA Group Ltd.

Mr Roger Amos FCA, MAICD
Independent non-executive director appointed 4 July 2006. Age 64.

Mr Amos is an experienced non-executive director with extensive finance and management expertise gained during a long and distinguished career in accounting. Specialising in the information, communications and entertainment sectors, he was a partner in international accounting firm KPMG for 25 years before retiring in 2006.

Mr Amos is Chairman and non-executive director of Tyrian Diagnostics Limited appointed June 2007 (Chairman in November 2007). He is also a member of Tyrian's Audit Committee and Remuneration Committee. He is an independant director of Enero Group Limited (formally Photon Group Limited), Chair of the Audit Committee and member of the Human Resources Committee. Mr Amos was previously an independent director of Austar United Communications Limited from 2008 to 2012. He is currently 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 Alliance Research Foundation.

Mr Amos is Chair of the Audit Risk and Compliance Committee and a member of the Human Resources Committee.

Interests in shares and options*
2,481 ordinary shares in REA Group Ltd.

Ms Kathleen Conlon BA(ECON) (DIST), MBA, FAICD.
Independent non-executive director appointed 27 June 2007. Age 48.

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.

Ms Conlon is a non-executive director of CSR Limited (since 2004), where she chairs the HR Committee and serves on the Audit Committee. She is also a non-executive director of Lynas where she serves on the Remuneration and Audit Committees and a member of Chief Executive Women. She is a NSW Council Member of the Australian Institute of Company Directors.

Ms Conlon is Chair of the Board's Human Resources Committee and member of the Audit Risk and Compliance Committee.

Interests in shares and options*
2,248 ordinary shares in REA Group Ltd (indirect).

Mr Richard J Freudenstein BEc, LLB (Hons).
Non-executive director appointed 21 November 2006. Resigned as Chairman 10 April 2012.
Age 47.

Mr Freudenstein is the Chief Executive Officer of FOXTEL and was formerly the CEO of News Digital Media (the digital division of News Limited) and The Australian newspaper. Mr Freudenstein returned to Australia in August 2006 after seven years at British Sky Broadcasting, the last six as Chief Operating Officer.

Mr Freudenstein is also a director of Astra, MCN, ESPN Star Sports and The Bell Shakespeare Company.

Mr John D McGrath
Independent non-executive director appointed 15 September 1999.
Age 48.

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. In 2003, he was awarded a Centenary Medal for service to business. In 2008, he was honoured 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.

Mr McGrath is a director of McGrath Group of Companies and the Rawson Group.

Mr McGrath is a member of the Board's Human Resources Committee.

Interests in shares and options*
146,080 ordinary shares in REA Group Ltd.

Mr John Pittard BSc.
Non-executive director appointed 30 June 2010.
Age 59.

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 theaustralian.com.au, news.com.au, careerone.com.au and carsguide.com.au. Mr Pittard contributes over 30 years of experience in senior technology roles with some of Australia's largest companies including Telstra, Pioneer Australia and Shell International.

Mr Pittard is also a director of CareerOne Pty Limited.

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 46.

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 is a Chartered Accountant and holds a Bachelor of Business Studies and a Diploma in Professional Accounting. His experience includes eight years at Arthur Andersen where he held the position of Senior Manager in the Audit and Business Advisory division.

Mr Rue is Chairman of Community Newspaper Group Limited, Chairman of Melbourne Storm Rugby League Club Limited, director of News Limited and Australian Associated Press Pty Limited and an alternate director of Foxtel Australia.

Mr Rue is a member of the Audit Risk and Compliance Committee.

Interests in shares and options*
21,600 options over Class A News Corporation Limited shares.

*As at 30 June 2012

CORPORATE GOVERNANCE STATEMENT

The corporate governance arrangements for REA Group Limited and its subsidiaries ('the Group' or 'the Company') are set by the Board having regard to the particular circumstances of the Group and the best interests of all shareholders. REA Group is committed to best practice in corporate governance where these practices are appropriate and add value to the Group. 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 Group.

Unless otherwise indicated, the information contained in this statement is true for the whole of the financial year commencing on 1 July 2011. The information provided below contains references to the REA Group website www.rea-group.com. This statement should be read in conjunction with this website and with the Directors' Report, including the Remuneration Report, on pages 26 – 33 of this report.

ASX CORPORATE GOVERNANCE COUNCIL – CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS WITH 2010 AMENDMENTS

ASX Listing Rules require REA Group to report on the extent to which it has followed the recommendations that are contained in the ASX Corporate Governance Councils' Corporate Governance Principles and Recommendations with 2010 Amendments (2nd Edition) (ASX Principles and Recommendations). Details of REA Group's application of the ASX Principles and Recommendations during the year are set out in the table below.

ASX PRINCIPLES AND RECOMMENDATIONS	COMPLY
Principle 1: Lay solid foundations for management and oversight	
Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions	**Yes**

Role of the Board and management

The Board has adopted a formal Board Charter that details the functions and responsibilities of the Board, Chairman and individual directors. Responsibility for the day to day management and administration of REA Group is delegated by the Board to the Managing Director and Chief Executive Officer (MD and CEO), assisted by the executive team. The MD and CEO manages REA Group in accordance with the strategy, plans and delegations approved by the Board.

The Board comprises directors with an appropriate range of skills, experience and expertise together with a proper understanding of, and competence to deal with, current and emerging issues of the business. Further, directors are expected to effectively review and challenge the performance of management.

Non-executive directors are appointed pursuant to formal letters of appointment setting out the key terms and conditions of the appointment and including further details regarding directors' remuneration, directors' duties and responsibilities, board performance evaluation, confidentiality of information, disclosure of interests and matters affecting independence and entering into deeds of indemnity, insurance and access.

Responsibilities of the Board

The Board retains full responsibility for the guiding and monitoring of the Company, however, to assist with discharging its responsibilities it has established the following committees:

- Audit Risk and Compliance (ARC) Committee; and
- Human Resources (HR) Committee.

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

- approval of REA Group's corporate strategy which is designed to meet stakeholders' needs and manage business risk;
- approving initiatives and strategies designed to ensure the continued growth and success of the entity; and
- implementation of budgets by senior 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:

- appointing and removing the CEO;
- approval and monitoring of the annual and half year 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; and
- reporting to shareholders.

A copy of the REA Group Board Charter is available on our website.

Companies should disclose the process for evaluating the performance of senior executives	**Yes**

The HR Committee, together with the MD and CEO, reviews and makes recommendations to the Board on the guidelines for evaluation of senior executive performance.

The performance of senior executives is reviewed regularly against both measurable and qualitative indicators. The MD and CEO conducts an annual performance assessment that involves an assessment of each senior 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 the Company.

ASX PRINCIPLES AND RECOMMENDATIONS	COMPLY

A performance evaluation for senior executives took place during the year in accordance with the process referred to above. Further details of the performance assessment for senior executives are set out in the Remuneration Report on pages 26 – 33 of this report.

Principle 2: Structure the Board to add value

A majority of the Board should be independent directors	**No**

The Board Charter sets out that the Board is to comprise a minimum of three independent non-executive directors, together with four directors appointed by News Limited, the majority shareholder of the Company. The current composition of the Board is three independent directors, four non-independent directors (appointed by News Limited) and an executive director, being the MD and CEO.

Due to the size of the Company, and the strategic relationships, the Board has determined that it is not appropriate to have a majority of independent directors on the Board. However, this decision does not limit the size of the Board, nor preclude the appointment of additional directors.

Independent decision-making

The Board Charter further dictates that each director will exercise independent judgement, rigour and objectivity in the performance of their director's duties, and is committed to creating sustainable and long term shareholder value for all shareholders.

Independent directors

REA Group considers a director to be independent when they are a non-executive director who is free of any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the independent exercise of their 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 to 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.

Assessing independence

The Board makes an assessment of the independence of each director upon their appointment and annually thereafter. 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.

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)

The Chair should be an independent director	**No**

The current Chairman of the REA Group Board, Mr Hamish McLennan, is not assessed as an independent director. The Board is of the opinion that the Chairman has the necessary skills and experience to undertake the role notwithstanding his non-independent status.

The roles of the Chair and Chief Executive Officer should not be exercised by the same individual	**Yes**

There is a clear division of responsibility between the current Chairman, Mr Hamish McLennan, and the MD and CEO, Mr Greg Ellis. Their respective roles are clearly outlined in the Board Charter and the Board-approved delegated authority matrix.

The Board should establish a nomination committee	**Yes**

The Board has delegated the functions of a nomination committee, being the review of Board composition and management succession, to the HR Committee.

Charter

Under the terms of the HR Committee Charter, the HR Committee reviews and makes recommendations to the Board on the appropriate size and composition of the Board; the appropriate criteria for appointment of independent non-executive directors; and on the appointment and removal of directors.

ASX PRINCIPLES AND RECOMMENDATIONS	COMPLY

Composition of committee

The HR Committee consists of a majority of independent directors, is chaired by an independent director and has at least three members, one being the Chairman of the Board.

The members of the HR Committee during the year and up to the date of this statement are:

- Ms Kathleen Conlon (Chair)
- Mr Roger Amos
- Mr John D McGrath
- Mr Hamish McLennan

Responsibilities

The responsibilities of the HR Committee relating to Board nomination and composition are to review and make recommendations to the Board on:

- The appropriate size and composition of the Board;
- The appropriate criteria (necessary and desirable skills and experience) for appointment of independent non-executive directors;
- Appointment and removal of directors; and
- The terms and conditions of appointment to and retirement from the Board.

A copy of the Board's HR Committee Charter is available on the Company's website.

Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors	**Yes**

In accordance with the Board Charter, the Performance of the Board is to be reviewed annually by the Chair, assisted by the HR Committee. The evaluation is intended to review the Board's role; review Board and Committee processes to support that role; and review the Board's performance.

A formal review of the Board was conducted by an external consultant during the year. The Board-appointed consultant interviewed all directors and relevant senior management and gathered information regarding the composition of the Board, its decision making capabilities, interaction with management and the role of the CEO. A formal report, including areas for development, was developed in conjunction with the Chairman and shared with the full Board.

The Chair also assesses the performance of the Board informally throughout the year, by speaking to individual directors to obtain feedback on the workings of the Board and the Chairman.

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.

Induction and education

A company information pack is sent to new directors on their appointment to assist the director to gain a full understanding of the Company. It contains a copy of all relevant Board Charters and Policies, the Constitution, a current set of audited financial statements and other relevant information. Ongoing directors also have access to continuing education in the form of updates by senior executives and external legal and financial advisors.

Access to information

The Board Charter sets out that directors may access such information and seek such independent advice as they individually or collectively consider necessary to fulfill their responsibilities and permit independent judgment in decision making. The Board's Charter also sets out that the directors are entitled to seek independent advice, with the Chairman's prior consent, at the expense of the Company.

The Board and the Company Secretary

The Company Secretary reports directly to the Chairman of the Board and has an internal reporting line through to the Chief Financial Officer. The appointment of the Company Secretary was a collaborative decision between the Chairman of the Board, the Chair of the HR Committee and the Chief Executive Officer. The Company Secretary is accountable to the Board, through the Chairman, on all governance matters.

Directors' information

The skills, experience and expertise held by each director in office as at the date of this report are set out on pages 12 - 13 of this report, along with details of the period of office held by each director in office at the date of this report and membership of each Board Committee. Each director's attendance at each Board and Committee meeting is set out on page 21 of this report.

ASX PRINCIPLES AND RECOMMENDATIONS	COMPLY
Principle 3: Promote ethical and responsible decision making	
Companies should establish a code of conduct and disclose the code or a summary of the code	**Yes**

REA Group has adopted a Code of Conduct to guide the standards of ethical behaviour expected of REA Group directors, executives and employees in the performance of their work. In summary, the Code of Conduct requires compliance with the following minimum standards of behavior: to treat each other respectfully, courteously and with dignity; to be fair and honest in our dealings; to use REA Group property responsibly and in the best interests of the Company and its reputation; to be responsible for our actions and accountable for their consequences; to respect the law and act accordingly; and to respect and adhere to REA Group's values.

A summary of the Code of Conduct is available on the Company's website. A full copy of the Code of Conduct is documented on the REA Group intranet and is supplemented by the REA Group Grievance Policy and the REA Group Whistleblower Policy. The Group Grievance Policy details a process for resolving staff grievances so that work-related concerns and problems are dealt with fairly, sensitively and quickly; and the Whistleblower Policy facilitates the reporting by employees of anyone suspected of fraudulent or corrupt conduct, where an employee wishes to remain anonymous or feels unable to utilise the Grievance Policy.

Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy	**Yes**

In recognition that diversity is critical to its business success, REA Group has adopted a REA Group Diversity Policy which includes requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them. A copy of the Diversity Policy is available on our website.

Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them	**Yes**

To assist REA Group to continue its work in achieving gender diversity in the workplace, the following measurable objectives were set by the Board during the year. The progress towards achieving them is summarised below the relevant objective.

- *To conduct an annual Employee Opinion Survey monitoring the engagement and enablement of all employee groups, with particular focus on women and responding to any trends requiring action*

The results of the survey conducted during the year showed REA Group has maintained strong employee engagement, continuing the positive momentum since 2009. With regard to a particular focus on women, the results show a significant positive improvement from the previous year in employees' perceptions that "REA Group judges performance without bias, regardless of one's gender".

- *To conduct an internal review of remuneration by gender across all employment groups, monitoring pay equity and responding to any trends requiring action*

During the review, the remuneration of all employees was reviewed against a range of internal and external benchmarks. The review showed an insignificant gap in remuneration across gender at REA Group (Australia), excluding senior executives. The data showed the median was slightly higher for males versus females across all employee groups, however, the difference remains well below the 2011 Australian average as described by the federal government's Equal Opportunity for Women in the Workplace Agency (EOWA). REA Group remains committed to addressing the existence of any gender pay gap, with the objectives of ensuring pay equity regardless of gender, in line with our guiding principles for remuneration.

- *To be in the top quartile of companies by Women in Management and Women in Technology roles, as reported by EOWA, and demonstrate improvement year on year.*

Group:	2011 (as at 30 June 2011)	2012 (as at 30 June 2012)	EOWA Top Quartile
Managers	32%	33%	26% - 35% (1)
IT Business Unit	19%	12%	16-21% (2)

(1) Women in the Workforce: by Occupation ABS Labour Force, Australia, detailed, Quarterly (Cat No 6291.0.55.003), February 2012 (as at 15 March 2012)

(2) Employer Persons (ST E08_Aug 96_ANZSIC06) by Occupation (ANZSCO06), Sex, State, Status in Employment - from August 1996.

- *To implement a formal talent identification and succession planning process based on performance and capability with the intention of maintaining a pipeline of talent that reflects diversity of gender, background and experience.*

Talent Identification and Succession Planning was undertaken during the year, commencing with the senior executives of the Company. In conjunction with this, key and immediate risks are addressed as required, including creation of talent pools for short supply and high volume roles.

- *To increase uptake of flexible work arrangements, in particular engagement in part time work arrangements within the Manager population.*

Flexible work arrangements are utilised broadly throughout the organisation, on an informal, ad hoc basis, assisting all employees to balance work and personal commitments. In 2012, we increased the number of employees formally engaged in a flexible work arrangement. This group included employees classified as Managers as well as employees returning to work from parental leave.

EOWA Employer of Choice for Women

In addition to the above, REA Group for the first time received the Equal Opportunity for Women in the Workplace Agency's (EOWA) Employer of Choice for Women citation. This citation is in recognition of our inclusive culture, our values and our people programs. It acknowledges REA Group as a women-friendly organisation, with programs that recognise and advance our female workforce.

ASX PRINCIPLES AND RECOMMENDATIONS	COMPLY
Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.	**Yes**

As part of the process towards achieving gender diversity at REA Group, the proportion of women employees in the whole organisation, senior executive positions and women on the Board are reported below (as at 30 June 2012). REA Group believes it provides a balanced workplace which supports diversity.

Proportion of female employees in REA Group as at 30 June 2012				
REA Group	**Board**	**Senior Executive[1]**	**Manager[2]**	**Employee[3]**
Female	12.5%	50%	34.2%	48.6%
Male	87.5%	50%	65.8%	51.4%

1 Senior executive represent the Executive Leadership Team who report through to the MD and CEO.

2 Manager represents all people managers.

3 Employee represents all other staff (total employees minus senior executive and managers).

Principle 4: Safeguard integrity in financial reporting

The Board should establish an audit committee — **Yes**

Purpose of the audit committee

The Board has established an Audit Risk and Compliance (ARC) Committee that operates under a charter approved by the Board. The ARC Committee has been established to review and make recommendations to the Board on areas including financial reporting, internal audit risk and compliance management, external audit and related party transactions.

Composition of the audit committee

The ARC Committee is structured so that it has at least three members; consists only of non-executive directors; consists of a majority of independent directors; and is chaired by an independent Chair, who is not Chairman of the Board.

Technical expertise

The ARC Committee Charter states that the committee will comprise of a minimum of three non-executive directors who can read and understand financial statements; and at least one director who is a qualified accountant or other financial professional with experience of financial and accounting matters. The current Committee composition meets these requirements.

The members of the ARC Committee during the year and up to the date of this statement were:

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

For details of the qualifications of the ARC Committee members refer to the Directors' Information on pages 12 – 13 of this report.

The Audit Committee should have a formal charter — **Yes**

Charter

An Audit Risk & Compliance Committee Charter has been adopted by the Board and sets out the functions and responsibilities of the ARC Committee. A copy of the ARC Charter is available on the Company's website.

The names and qualifications of those appointed to the ARC Committee are detailed on pages 12 and 13 of this report, and their attendance at committee meetings is set out on page 21 of this report.

Responsibilities

The ARC Committee is responsible for reviewing and making recommendations to the Board on areas including the following:

- the financial statements and reports intended for publication, including the annual statutory financial statements and the ASX financial reports at half year and full year;
- the adequacy of accounting and business policies and practices, approving and ensuring appropriate application of new policies; and revisions to existing policies to ensure compliance with Australian accounting standards;
- approval of the appointment and remuneration of the external auditor;
- facilitation of the external audit process and ensuring an appropriate response from management in addressing any issues raised by the external auditor;
- approving all audit and non-audit services provided by the external auditor.

ASX PRINCIPLES AND RECOMMENDATIONS	COMPLY

Meetings

The ARC Committee Charter dictates that the number of meetings is to be determined by the Chair of the Committee in order to permit the Committee to fulfill its obligations, but shall not be less than three each year. Further, that the Company Secretary will attend and maintain minutes of each meeting.

For details of the number of meetings of the ARC Committee held during the year, and the attendees at those meetings, refer to Meetings of Directors on page 21 of this report.

Reporting

The Chair of the ARC Committee communicates the findings of the Committee to the Board after each meeting.

The ARC 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 ARC Committee.

While the Company has not adopted a formal policy on the appointment of the external auditor, REA Group's external auditor has a policy of rotating their external audit partner every five years. The lead audit partner was rotated during this financial year.

Principle 5: Make timely and balanced disclosure

The Board should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies	**Yes**

The Board has adopted the REA Group Market Disclosure Policy, which sets out the key obligations of the Board and senior management to ensure that REA Group complies with its disclosure obligations under the ASX Listing Rules and the *Corporations Act 2001* (Cth). The Board has overall responsibility for the establishment, implementation and supervision of the Company's continuous disclosure system, however, it has delegated authority to the Market Disclosure Committee to be responsible for the Company's compliance in accordance with the Market Disclosure Policy, including what information will be disclosed to the market via the ASX. The Market Disclosure Committee comprises the Chair, the Chair of the ARC Committee, the MD and CEO, the Chief Financial Officer and the Company Secretary.

A copy of REA Group's Market Disclosure Policy is available on the Company's website.

Principle 6: Respect the rights of shareholders

Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy	**Yes**

REA Group aims to communicate all important information relating to the Company to its shareholders. The Board has adopted a Shareholder Communication Policy, which sets outs the means to enable REA Group to meet this aim including the following:

- ASX announcements – announcements are made to the ASX in respect of annual and half-year results and on other occasions when the Company becomes aware of disclosable information.
- The REA Group corporate website – copies of all Board Charters and policies are made available in the Corporate Governance section of the Company's website and all ASX and media releases are made available via the investor section of the website after they have been released to the ASX.
- Shareholder alerts – shareholders can sign up to receive ASX announcements via email.
- Annual Report – the Annual Report is distributed to all relevant 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 required disclosures.
- Annual General Meeting – each shareholder receives a Notice of Meeting invitation to attend the Annual General Meeting and has the opportunity to attend and participate in the meeting.

Further, REA Group webcasts the announcement of full year and half year financial results briefings made by the Chief Executive Officer and Chief Financial Officer.

A copy of the Shareholder Communication Policy is available on the Company's website.

Principle 7: Recognise and manage risk

Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies	**Yes**

The Board is responsible for ensuring material risks facing the Company have been identified and that appropriate and adequate control, monitoring and reporting mechanisms are in place.

REA Group has adopted a Risk Management Policy that is based on the requirements of the International Standard ISO 31000 Risk Management. The policy sets out the framework for the Risk Management at REA Group.

Further, the Board has delegated the review of risk management, audit and compliance matters to the ARC Committee. The ARC Committee has included within its Charter a section dealing with the monitoring and management of business, operational and financial risks, including appropriate systems and to ensure accountability at an executive level for risk oversight and management.

ASX PRINCIPLES AND RECOMMENDATIONS	COMPLY
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	**Yes**

The Risk Management Framework, (required by the Risk Management Policy) sets out the Group's processes of Risk Management including:

- Ongoing identification and assessment of risks that may materially impact the Group's objectives;
- Formulating risk treatment strategies, including assessment of internal controls, to manage identified risks; and
- Ongoing management and ARC Committee reporting on the operation and performance of the Risk Management Framework.

Additionally, REA Group has an internal audit function which reports to the ARC Committee and the Chief Financial Officer. The ARC Committee oversees the internal audit function and the appointment of the Group Risk and Assurance Manager. The Group Risk and Assurance Manager meets regularly with the Chair of the ARC Committee in the absence of management. This function has full access to personnel and information and is independent of the external auditor.

The Risk Management Policy is available on the Company's website.

The Board should disclose whether it has received assurance from the Chief Executive Officer and the Chief Financial Officer 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	**Yes**

The Chief Executive Officer and the Chief Financial Officer have provided a written statement to the Board in accordance with s295A *Corporations Act 2001* 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. This statement was received by the Board during the year, prior to the acceptance of the annual financial statements.

Principle 8: Remuneration fairly and responsibly	
The Board should establish a remuneration committee	**Yes**

Purpose of the HR Committee

The Board has delegated the functions of a remuneration committee, which is to review and make recommendations to the Board on the remuneration and performance of the Board and senior executives, to the Human Resources (HR) Committee.

The HR 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.

Charter

The HR Committee acts in accordance with the terms of reference set out in the HR Committee Charter, approved by the Board. The Charter sets out the responsibilities of the HR Committee to review and make recommendations to the Board on:

- Remuneration and performance of the Board
- Executive remuneration including the remuneration of the Managing Director and senior executives, remuneration incentive and KPI policies and guidelines for the business;
- Superannuation arrangements;
- Guidelines for employee share plans.

The Charter confirms that no executive should be directly involved in deciding their remuneration.

A copy of the HR Committee Charter is available on the Company's website.

Composition of the HR Committee

The HR Committee is structured so that it consists of a majority of independent directors; is chaired by an independent director; and has at least three members.

The names and qualifications of those appointed to the HR Committee are detailed on pages 12 and 13 of this report, and the number of, and attendance at, Committee meetings are set out on page 21 of the Directors' Report.

Remuneration policy

For further details of the remuneration policies of the Company, please refer to the Remuneration Report on pages 26 – 33 of this report.

ASX PRINCIPLES AND RECOMMENDATIONS	COMPLY
Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives	Yes
The non-executive directors' remuneration is fixed and non executive directors do not participate in any "at risk" incentive plans. Remuneration paid to executives in the 2012 financial year included fixed and variable components. REA Group does not provide any scheme for retirement benefits, other than statutory superannuation, for non-executive directors. The Company's Share Trading Policy prohibits the entering into of transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration schemes. Further details of the non-executive directors' remuneration and that of the Managing Director and CEO and senior executives can be found in the Remuneration Report on pages 26 – 33 of this report.	

For further information on corporate governance policies adopted by REA Group Limited refer to our website: www.rea-group.com

MEETINGS OF DIRECTORS

The number of meetings of the Company's Board of directors and each Board Committee, held during the year up to 30 June 2012, and the number of meetings attended by each director were as follows:

Director	Board		Audit, Risk & Compliance Committee		Human Resources Committee	
	Held^	Attended	Held^	Attended	Held^	Attended
Mr Hamish McLennan, Chairman (appointed 21 February 2012)	3	3	-	-	1	1
Mr Greg Ellis	9	9	5	5#	4	4#
Mr Roger Amos	9	9	5	5	4	4
Ms Kathleen Conlon	9	9	5	5	4	4
Mr Richard J Freudenstein	9	9	-	-	3	2
Ms Diana Eilert (resigned 17 February 2012)	6	5	-	-	-	-
Mr John D McGrath	9	7	-	-	4	3
Mr John Pittard	9	8	-	-	-	-
Mr Stephen P Rue	9	9	5	5	-	-
Mr Sam R White (resigned 9 January 2012)	5	3	-	-	2	1

The MD & CEO attended these meetings at the invitation of the Committee.

^The number of meetings held during the time the director was appointed.

The directors present their report together with the Financial Report of the consolidated entity (the Group), being REA Group Limited (the Company) and its controlled entities, for the year ended 30 June 2012 and the Independent Auditor's Report thereon.

DIRECTORS

The following persons were directors of REA Group Limited during the whole of the financial year and up to the date of this report unless stated otherwise:

- Mr Hamish McLennan (Chairman) (appointed 21 February 2012 and as Chairman on 10 April 2012)
- Mr Greg Ellis (CEO & Managing Director)
- Mr Roger Amos
- Ms Kathleen Conlon
- Mr Richard J Freudenstein (Chairman until 10 April 2012)
- Mr John D McGrath
- Mr John Pittard
- Mr Stephen P Rue
- Ms Diana Eilert (resigned 17 February 2012)
- Mr Sam R White (resigned 9 January 2012)

Details of the qualifications, experience and responsibilities of the directors are set out on pages 12 to 13 of this report.

PRINCIPAL ACTIVITIES

The Group's principal activity during the year was the provision of real estate online advertising and related services, which includes:

- online advertising of residential properties for sale and rent;
- online advertising of commercial properties for sale and lease;
- provision of online display advertising space for advertisers in various industries;
- provision of website development services to the Australian real estate industry through web design services;
- provision of property market related information to customers and consumers including publications to advertise properties for sale and rent; and
- other services.

In the delivery of the online advertising services, the Group produces consumer and customer (agent, developer, display advertiser) products. Consumer products are our websites, mobile websites and applications for iPhone®, Android™ and iPad®, as well as print publications in Hong Kong and Luxembourg. The Group's customer products can be grouped into the following categories, subscriptions, agency depth products, listing depth products, media sales and search, website and listings.

RESULTS

A summary of financial results for the year ended 30 June 2012 is below:

A$'000 (unless stated)	2012	2011	Growth
Revenues	277,613	238,401	16%
EBITDA	125,982	103,181	22%
EBITDA margin	*45%*	*43%*	*5%*
Net Profit (after tax)	86,782	67,505	29%
Earnings per Share	66.2c	53.1c	25%
Cash Balance at 30 June	181,599	137,543	32%

The Group continued its excellent growth track record in 2012 and achieved a 29 per cent increase in Net Profit to $86.8 million. Revenue grew by 16 per cent to $277.6 million as the Group focused on delivering products and services to increase the success of real estate agents and home owners in a challenging market environment.

The Group's property websites in Australia, Europe and Asia all recorded growth in 2012 and continued to strengthen their competitive positions. Australia and Italy remained the primary revenue drivers for the business, delivering 96 per cent of Group revenue. Australia achieved double-digit revenue growth across its residential, commercial and developer and display media businesses, while Italy delivered 35% (44% in local currency) revenue growth and its first full-year positive EBITDA.

EBITDA increased 22 per cent to $126.0 million and EBITDA margin grew to 45%, a 5 per cent improvement over the prior period. Operating expenses increased by a modest 12 per cent on the previous year, as the Group balanced a disciplined approach to cost management with continued investment in customers, technology and product innovation.

Cash balance increased 32 per cent to $181.6 million in 2012 as a result of incremental growth and strategies to maximise interest return.

The Group's multinational operations attracted combined unique browsers of 12.8 million (Nielsen) in June 2012. Property listings across all sites were consistent at 1.6 million in June 2012 and paying agents decreased slightly year on year to 21,448 across all websites due to agency contraction and consolidation in Australia and a focus on profitable growth in Italy.

The below table* details comparative data for the past five years:

Financial Comparatives (AUD)	2008 $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000	Growth in 2012 %
Revenues from continuing operations	**133,562**	**167,795**	**194,335**	**238,401**	**277,613**	**16%**
Operating expenses	(87,438)	(105,304)	(116,348)	(135,220)	(151,631)	12%
EBITDA	**46,124**	**62,491**	**77,987**	**103,181**	**125,982**	**22%**
EBITDA Margin	*35%*	*37%*	*40%*	*43%*	*45%*	
Depreciation and amortisation	(6,404)	(7,348)	(7,088)	(10,489)	(15,184)	**45%**
Impairment	-	(7,995)	-	-	-	**-**
EBIT	**39,720**	**47,148**	**70,899**	**92,692**	**110,798**	**20%**
EBIT Margin	*30%*	*28%*	*36%*	*39%*	*40%*	
Net finance income	488	153	1,064	4,594	7,652	67%
Earnings Before Tax	**40,208**	**47,301**	**71,963**	**97,286**	**118,450**	**22%**
Income tax (expense)	(14,720)	(18,598)	(22,597)	(29,781)	(31,668)	6%
Profit from continuing operations	**25,488**	**28,703**	**49,366**	**67,505**	**86,782**	**29%**
Profit/(loss) from discontinued operations	(9,725)	(63,341)	1,277	-	-	
Profit for the year	**15,763**	**(34,638)**	**50,643**	**67,505**	**86,782**	**29%**
Non-controlling interest (net of taxes)	(6,581)	(35,584)	(14)	(1,234)	(189)	**(85%)**
Profit attributable to members of parent	**22,344**	**946**	**50,657**	**68,739**	**86,971**	**27%**
Net tangible assets per share (cents)	**2.1**	**30.3**	**65.1**	**102.0**	**138.5**	**36%**

*Information additional to IFRS measures included in the report has been used for prior period consistency and user readability. These measures have been derived from audited information contained in the Financial Statements.

STATE OF AFFAIRS

In the directors' opinion there have been no significant changes in the state of affairs of the Group during the year. A further review of matters affecting the Group's state of affairs is contained in the Review of Operations below.

DIVIDENDS

Dividends paid or declared by the Company during and since the end of the year are as follows:

	Final 2011	Interim 2012	Final 2012
Per share	16c	12.5c	20.5c
Total amount ($000)	20,864	16,464	27,002
Franked	30%	30%	30%
Payment date	14 October 2011	3 April 2012	27 September 2012

REVIEW OF OPERATIONS

Key operational highlights on a country basis are as follows:

Country Performance (AUD)		Revenue $'000	**EBITDA $'000**	**Margin %**	Depreciation and amortisation $'000	Net finance income $'000	**Profit before income tax $'000**	Income tax expense $'000	**Net profit for the period $'000**
30 June 2012	Australia	246,224	129,620	53%					
	Italy	22,414	875	4%					
	Other countries	8,975	2,495	28%					
	Corporate		(7,008)						
	Total	277,613	**125,982**	**45%**	(15,184)	7,652	**118,450**	(31,668)	**86,782**
30 June 2011	Australia	213,595	112,086	52%					
	Italy	16,599	(3,484)	(21%)					
	Other countries	8,207	1,034	13%					
	Corporate		(6,455)						
	Total	238,401	**103,181**	**43%**	(10,489)	4,594	**97,286**	(29,781)	**67,505**

AUSTRALIA

REA Group operates Australia's number one residential and commercial property sites, realestate.com.au and realcommercial.com.au, as well as REA Media which serves the property development and display media markets.

Australian revenues increased by 15 per cent to $246.2 million during 2012. Residential revenue rose by 12 per cent, commercial revenue increased by 17 per cent and media and developer revenues grew by 31 per cent.

Increased take-up of value-added products across all segments offset a slight contraction in paying agents due to agency contraction in Queensland and agency consolidation in New South Wales.

Demonstrating the Group's ability to respond to changing market conditions and support customer businesses through new product development, the 'Highlight' mid-range residential listing product was introduced in December 2011, completing the residential product ladder. It was enthusiastically received by the market, recording excellent month-on-month growth during the second half and contributed to monthly average revenue per agent (ARPA) growth of 13.2 per cent to $1,534.

realestate.com.au attracted an average monthly Unique Audience of 2.9 million during 2012, approximately 1.8 times that of its nearest competitor. The site accounted for 61 per cent of total minutes Australians spent on residential property portals in June 2012 (nearest competitor 17 per cent). Source: Nielsen Online Ratings.

realcommercial.com.au recorded an average monthly Unique Audience of 169,300 during 2012 (Nielsen Online Ratings) and an uplift in the second half due to growing take-up of its value-added products, 'Elite' and 'Elite Plus'.

REA Media increased its focus on product innovation for the development market in 2012 and introduced a new value-added product, 'Project Profiles'. REA Group agency booked online display revenue is now the 10th largest in Australia (SMI June 2012).

INTERNATIONAL

Italy

Italy's number one property site, casa.it, became a wholly owned subsidiary of REA Group during 2012 following the purchase of a 30.6% minority stake from Sky Italia in December 2011.

Italy remains a high-growth market for REA Group with casa.it recording a 35% increase in revenue during 2012 to $22.4 million (up 44% in local currency) and its first full-year positive EBITDA of $875,000. ARPA increased to €154, with a major contributor to this growth being the 'Diamond Package' which offers agents higher visibility listings as well as a range of other benefits.

During the period casa.it increased its lead on its nearest competitor with an average Unique Audience of 1.8 million, approximately 1.6 times that of the second-ranked site (source: NetView). During May 2012 casa.it recorded a record 5 million Unique Browsers (source: Omniture)

casa.it's award-winning social media strategy saw it named as one of the 10 most popular brands in Italy this year, according to social media site Pinterest.

Luxembourg, Germany, France

The atHome Group comprises the number one property sites in the Greater Luxembourg area, athome.lu and atoffice.lu. It also operates sites in the neighbouring Trier region of Germany (athome.de) and the Alsace and Lorraine regions of France (immoRegion.fr). The operations of the atHome Group increased revenue by 22% in 2012 and recorded an EBITDA of $2.6 million (€2.0m in local currency). Agent numbers grew by 27% for immoRegion.fr in France.

Hong Kong

The Squarefoot Group operates the real estate portal squarefoot.com.hk, as well as a print publication in the real estate and life style segments, targeting the English and Chinese speaking communities of Hong Kong. Online revenues grew by 41% during 2012, unique browsers increased by 48% to 165,579 in June 2012 and agent numbers are up 57%. While there was a reduction in 2012 ARPA due to consolidation of print publications, this has resulted in improved EBITDA margin, reducing the loss by 60%, as compared to FY11.

EVENTS SINCE THE END OF THE FINANCIAL YEAR

As at the date of this report, the directors are not aware of any circumstance that has arisen since 30 June 2012 that has significantly affected or may significantly affect the Group's operations in future financial years; the results of those operations in future financial years; or the Group's state of affairs in future financial years.

FUTURE DEVELOPMENTS

The Group's strategy is to continue to strengthen and grow across its business areas in both online advertising and in other related sectors of the real estate industry. In the opinion of the directors, the disclosure of further information regarding the future development of the Group may result in unreasonable prejudice.

ENVIRONMENTAL REGULATION

The directors are not aware of any material breaches of any particular and significant environmental regulation affecting the Group's operations and the Group has complied with all required reporting.

DIRECTORS' QUALIFICATIONS, EXPERIENCE AND SPECIAL RESPONSIBILITIES

The Board comprises seven non-executive directors who have a diverse range of skills and experience. The names of directors and details of their skills, qualifications, experience and when they were appointed to the Board are contained on pages 12 to 13 of this report.

Details of the number of Board and Board Committee meetings held during the year and, directors attendance at those meetings are shown on page 21 of this report.

Details of directors' special responsibilities and directorships of other listed companies held by each current director in the three years prior to the end of the 2012 financial year are listed on pages 12 to 13 of this report.

COMPANY SECRETARY'S QUALIFICATIONS AND EXPERIENCE

Ms Rebecca Liatis was appointed Company Secretary of REA Group Limited on 24 February 2011. Ms Liatis has over 12 years of experience working in company secretarial roles with ASX-listed companies. Ms Liatis' qualifications include a Bachelor of Laws and a Graduate Diploma of Applied Corporate Governance, and she is an Associate Member of the Institute of Chartered Secretaries and Administrators.

CHIEF EXECUTIVE OFFICER/CHIEF FINANCIAL OFFICER DECLARATION

The Chief Executive Officer and the Chief Financial Officer have given the declarations to the Board concerning the Group's financial statements and other matters as required under section 295A(2) of the *Corporations Act 2001*.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

REA Group Limited has entered into a standard form deed of indemnity, insurance and access with the non-executive 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 non-executive 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.

During the year, the Company paid premiums totalling $76,204 in respect of contracts insuring the directors and officers of REA Group Limited against costs incurred in defending proceedings for conduct involving:

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

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

NON-AUDIT SERVICES

The Company may decide to employ the external 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.

The Board of directors has considered the position and, in accordance with advice received from the Audit Risk and Compliance 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 external 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 Risk and Compliance Committee, in line with the Committee Charter, 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 non-audit services provided by the external auditor of the parent entity, its related practices and non-related audit firms:

Consolidated	**2012**	2011
International tax consulting	**7,000**	-
Total remuneration for non-audit services	**7,000**	-

Further details on the compensation paid to Ernst & Young is provided in Note 23 to the financial statements.

AUDITOR

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

ROUNDING OF AMOUNTS

The Company is a company of the kind referred to in Australian Securities and Investments Commission class order 98/100 (as amended) pursuant to section 341(1) of the *Corporations Act 2001*. Amounts in the Directors' Report and the accompanying financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, except where otherwise indicated.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration given under section 307C of the *Corporations Act 2001* is set out below and forms part of this Directors' Report for the year ended 30 June 2012.

Ernst & Young Building
8 Exhibition Street
Melbourne VIC 3000 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 2012, 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

Ernst & Young

David Petersen
Partner
Melbourne, Australia
16 August 2012

REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2012

This report forms part of the Directors' Report for the year ended 30 June 2012

1. INTRODUCTION AND SCOPE OF REPORT

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

This Remuneration Report for the year ended 30 June 2012 outlines the remuneration arrangements in place for the key management personnel (KMP) of REA Group Limited (REA or Group), which comprises all directors (executive and non-executive) and those executives who have authority and responsibility for planning, directing and controlling the activities of the Group.

The following were KMP during the 2012 financial year and unless otherwise indicated were KMP for the entire year:

EXECUTIVE DIRECTOR	
Greg Ellis	Managing Director and CEO
SENIOR EXECUTIVES	
Jennifer Macdonald	Chief Financial Officer
Henry Ruiz	Chief Product Officer
Nigel Dalton	Chief Information Officer[1]
Daniele Mancini	Country Manager – Italy
FORMER EXECUTIVES	
Daniel Oertli	Chief Information Officer[2]
NON-EXECUTIVE DIRECTORS	
Hamish McLennan[3]	Chairman
Roger Amos	Independent director
Kathleen Conlon	Independent director
Richard Freudenstein[4]	Director
John McGrath	Independent director
John Pittard	Director
Stephen Rue	Director
FORMER NON-EXECUTIVE DIRECTORS	
Diana Eilert[5]	Director
Sam White[6]	Independent director

1 Employment commenced 4 June 2012
2 Employment ceased 11 May 2012
3 Appointed 21 February 2012 and as Chairman on 10 April 2012
4 Chairman until 10 April 2012
5 Ceased 17 February 2012
6 Ceased 9 January 2012

2. ROLE OF THE HUMAN RESOURCES COMMITTEE

The Board Human Resources Committee (**HR Committee**) is responsible for reviewing and making recommendations to the Board on the remuneration arrangements for the directors, the CEO and the executive team. Further information on the HR Committee's role and responsibilities is contained in its Charter, which is available on the Group's website at www.rea-group.com.

To assist in performing its duties, and making recommendations to the Board, the HR Committee seeks independent advice from external consultants on various remuneration related matters. The HR Committee follows protocols around the engagement and use of external remuneration consultants to ensure compliance with the recently implemented executive remuneration legislation. All remuneration recommendations are provided by the external consultant directly to the Committee.

During the 2012 financial year, the Committee engaged jws consulting to review and provide recommendations on non-executive director fees, and the remuneration levels for the CEO and members of the Executive Leadership Team. Under the terms of engagement, jws consulting provided remuneration advice (inclusive of 'remuneration recommendations' as defined in section 9B of the *Corporations Act 2001*) and was paid $73,500 for these services. For each of the remuneration recommendations, the Board is satisfied that the recommendations were made free from any undue influence. In addition, jws consulting provided a formal declaration confirming that the recommendations provided were free from 'undue influence' by the members of the KMP to whom the recommendations related.

In addition to providing remuneration recommendations, jws consulting also provided advice on other aspects of the Group's remuneration structure and broader governance advice and was paid a total of $62,994 for these other services.

3. EXECUTIVE REMUNERATION PHILOSOPHY AND FRAMEWORK

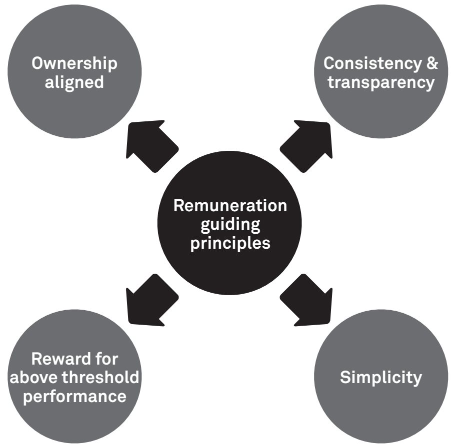
3.1 Remuneration philosophy and principles

During the year, the Board and HR Committee undertook a comprehensive review of the Group's remuneration framework and strategy. In addition to approving four core principles to be used as a reference in the design of our executive reward programs, the Board expanded and clarified the key objectives which underpin the Group's remuneration philosophy.

That is, the Group's executive remuneration philosophy is founded on the objectives of:

- driving desired leadership behaviours; and
- recognising both individual and organisational performance, that are focussed on achieving the Group's corporate plans and, in turn:
- generating acceptable returns for shareholders; and
- rewarding executive performance for generating returns above acceptable threshold levels.

The four core 'guiding principles' are shown in the diagram opposite.



3.2 Overview of components

The diagram below sets out an overview of the components of the executive remuneration framework, as well as the optimal mix between the fixed and total 'at-risk' components for the CEO and senior executives. Details on each of the individual components are set out in section 5 of this Report.

Fixed Annual Remuneration ("FAR")	Short Term Incentive ("STI")	Long Term Incentive ("LTI")
50 - 60% of total remuneration	40 - 50% of total remuneration	
• Fixed salary set by reference to appropriate benchmark information and individual performance • Includes superannuation and salary-sacrificed non-monetary benefits	• Annual cash incentive • 12 month period • Targets linked to Group and individual performance	• Grant of performance rights under the LTI plan • 3 year performance period • Performance hurdles linked to Revenue growth and EPS growth

4. LINKING PERFORMANCE TO EXECUTIVE REMUNERATION

A key underlying principle of REA Group's executive remuneration framework is that remuneration levels should be linked to Group performance.

REA Group performance for the 2012 financial year has been strong and the STI target performance levels for the EBIT and Revenue financial measures have been met. This performance is reflected in the STI payments to the executive team, as set out on page 29.

During the year, a number of performance rights granted to participating executives under the LTI plan in 2008 vested as a result of 'over performance' against the applicable Revenue and EBIT growth hurdles. The number of rights that vested is shown in the table on page 30.

Further detail of the Group's Revenue, EBIT and EPS performance for the past five years is set out in the Directors' Report on page 23.

The table below summarises key indicators of REA Group's performance and the effect on shareholder value over the past five years.

Performance Indicator	2008	2009	2010	2011	2012
Net profit after tax from continuing operations $000's	25,488	28,703	49,366	67,505	86,782
Dividends per share	nil	10c	16c	26c	33c
Earnings per share	17.6c	0.7c	39.5c	53.1c	66.2c
Profit after tax attributable to owners of parent $000's	22,344	946	50,657	68,739	86,971
Share Price 30 June	4.38	5.95	10.67	11.90	13.46

5. EXECUTIVE REMUNERATION COMPONENTS

5.1 Fixed remuneration

Fixed remuneration	Fixed remuneration consists of base compensation and statutory superannuation contributions. Executives may also elect to have other benefits provided out of their fixed remuneration, including additional superannuation and the provision of a motor vehicle.
Regular reviews of remuneration	Remuneration levels for the CEO and senior executives are reviewed annually, taking into account individual performance and overall Group performance. The HR Committee seeks independent advice from external consultants as part of the review process to ensure executive remuneration levels remain competitive relative to comparable ASX companies and in line with current market trends. A review was undertaken during the 2012 financial year. Fixed remuneration levels for the CEO and a number of senior executives was increased effective 1 July 2011, based on individual performance and to align to market remuneration levels.

5.2 Short term incentive

DETAIL OF STI ARRANGEMENTS

What is the STI and who participates?	The annual short-term incentive (STI) program is a cash-based plan that involves linking specific financial and non-financial targets with the opportunity to earn incentives based on a percentage of fixed salary for the CEO and senior executives.
What is the amount that executives can earn?	The ‘Target’ STI opportunity is currently 54% of fixed remuneration for the CEO and between 30% – 50% for the senior executives. Actual STI payments granted to each executive depends on the extent to which specific operating targets set at the beginning of the financial year are met. The non-financial measures are then awarded on the level of individual performance and the % of target incentive awarded ranges between 0 to 200%.

Financial measures – level of performance	% of Target incentive awarded
Below Threshold (i.e. ⩽85% of Target)	0%
Target	100%
Above Target (ie. ⩾120% of Target)	200%
Pro-rata between these points	

What are the performance measures?

For the 2012 financial year, the performance measures are as follows:

Performance measure	Senior executive allocation	CEO allocation
EBIT	35%	40%
Revenue	35%	40%
Individual performance (based on specific Key Performance Indicators)	30%	20%

Why were these performance measures chosen?	The Board considers the financial measures to be appropriate as they are aligned with the Group’s objective of delivering profitable growth and, ultimately, improved shareholder returns. The non-financial performance measures have been set to drive leadership performance and behaviours consistent with REA Group’s corporate philosophy.
When are the performance conditions tested?	Incentive payments are determined after the preparation of the financial statements each year (in respect of the financial measures) and after a review of performance against non-financial measures by the CEO (and in the case of the CEO, by the Board). Payments of annual incentives are generally made in September after the reviews are completed.

Table 1 – STI for the 2012 financial year

Specific information relating to the STI payable for the 2012 financial year based on achievement of the STI objectives for the CEO and senior executives is set out below:

Name	Actual STI payment	% of Target STI payable	% of Target STI forfeited
G Ellis	$293,780	79%	21%
J Macdonald	$151,388	110%	0%
H Ruiz	$213,975	95%	5%
D Mancini	$110,100	110%	0%
Former Executive			
D Oertli	$NIL	0%	100%

5.3 Long term incentive

DETAIL OF LTI ARRANGEMENTS

What is the LTI and who participates?	The LTI plan is designed to link long-term executive reward with ongoing creation of shareholder value, with the allocation of equity awards which are subject to satisfaction of long-term performance conditions. A comprehensive review of the LTI arrangements was undertaken during the year, with the HR Committee receiving independent advice regarding the structure of arrangements. This resulted in various changes to the structure of the grant for the 2012 financial year, which is eligible to vest in 2014 (**FY14 grant**). All senior executives (including the CEO) participate in the LTI plan.
How is the LTI grant determined?	The number of performance rights issued to each executive is calculated by dividing their 'target LTI' value (which is currently 46% of fixed remuneration for the CEO and between approximately 20% to 35% for the senior executives) by the value per right. Each performance right is a right to acquire one share in REA upon vesting.
What is the performance period?	The performance rights for the FY14 grant are subject to a three year performance period being 1 July 2011 and ending on 30 June 2014. Any performance rights which do not vest following testing of the performance hurdles at the end of the performance period will lapse.
What are the performance conditions?	The performance hurdles for the FY14 grant are based on the following: • **50%** of the performance rights are tested based on compound annual growth in Revenue; and • **50%** of the performance rights are tested based on compound annual growth in EPS. Each hurdle is tested following finalisation of the annual accounts at the end of the performance period in accordance with the vesting schedules set out below.
What vesting schedules apply?	The following vesting schedule applies to both performance hurdles (with pro-rata vesting between any two points): **Performance level** — **% of awards vesting** Below Threshold — 0% vesting Threshold — 70% vesting Target — 100% vesting Stretch — 120% vesting The Board has approved challenging Threshold, Target and Stretch growth rates (using FY11 as the base) in respect of both the Revenue and EPS hurdles, which are based on the Company's strategic plan. Both hurdles require double digit growth at the Threshold level for any vesting to occur. The Board considers that the growth rates required to attract full or partial vesting are extremely commercially sensitive and therefore they will not be disclosed at this time. The applicable targets will, however, be disclosed on a retrospective basis following the end of the performance period to ensure full transparency to shareholders.

Performance level	% of awards vesting
Below Threshold	0% vesting
Threshold	70% vesting
Target	100% vesting
Stretch	120% vesting

Why were these performance conditions chosen?	The Board considers the combination of the Revenue and EPS hurdles to be an appropriate counterbalance to ensure that any 'top line' growth is long-term focussed and balanced with an improvement in earnings. In particular, Revenue is considered to be an appropriate hurdle given that the Group is currently in a phase of growth. In addition, the Board selected EPS as a performance measure for the FY14 grant on the basis that: • is a relevant indicator of increase in shareholder value; and • is a target that provides a suitable line of sight to encourage and motivate executive performance.
Are there any restrictions placed on the rights?	REA policy prohibits executives from entering into transactions or arrangements which operate to transfer or limit the economic risk of any securities held under the LTI plan while those holdings are subject to performance hurdles or are otherwise unvested.
What happens in the event of a change of control?	In accordance with the LTI plan rules, the Board has discretion to waive any vesting conditions attached to the performance rights in the event of a change of control.
What happens if the executive ceases employment?	Where an executive ceases employment with the Group any unvested performance rights will lapse, except in specified circumstances approved by the Board in accordance with the LTI plan rules.

Table 2 – summary of awards under the LTI Plans

The table below sets out details of performance rights held by and granted to executives during the 2012 financial year under the LTI Plans.

Current executives[4]	Held at 1 July 2011	Granted during year	Number vested during year[3]	Value of rights at grant date	Number forfeited during year	Held at 30 June 2012
G Ellis						
LTI Plan 2011 (Plan 2)	45,455	5,654[1]	51,109	$224,878	-	-
LTI Plan 2012 (Plan 3)	34,965	-	-	-	-	34,965
LTI Plan 2013 (Plan 4)	27,027	-	-	-	-	27,027
LTI Plan 2014 (Plan 5)	-	28,802	-	$319,990	-	28,802
Total	107,447	34,456	51,109		-	90,794
J Macdonald						
LTI Plan 2014 (Plan 5)	-	12,376	-		-	12,376
H Ruiz						
LTI Plan 2011 (Plan 2)	5,682	706[1]	6,388	$28,106	-	-
LTI Plan 2012 (Plan 3)	4,371	-	-	-	-	4,371
LTI Plans 2013 (Plan 4)	10,010	-	-	-	-	10,010
LTI Plan 2014 (Plan 5)	-	11,251	-	$124,999	-	11,251
Total	20,063	11,957	6,388		-	25,632
D Mancini						
LTI Plan 2011 (Plan 2)	8,409	1,046[1]	9,455	$41,602	-	-
LTI Plan 2012 (Plan 3)	6,469	-	-	-	-	6,469
LTI Plans 2013 (Plan 4)	7,507	-	-	-	-	7,507
LTI Plan 2014 (Plan 5)	-	6,750	-	$74,993	-	6,750
Total	22,385	7,796	9,455		-	20,726
D Oertli[2]						
LTI Plan 2011 (Plan 2)	17,045	2,120[1]	19,165	$84,328	-	-
LTI Plan 2012 (Plan 3)	13,112	-	-	-	13,112	-
LTI Plan 2013 (Plan 4)	10,010	-	-	-	10,010	-
LTI Plan 2014 (Plan 5)	-	9,000	-	-	9,000	-
Total	40,167	11,120	19,165		32,122	-

[1] These performance rights were granted as a result of a combined average of 116% over-performance of hurdles rates on the LTI Plan 2011

[2] D Oertli forfeited 100% of LTIP upon employment ceasing

[3] The LTI Plan 2011 was settled by purchase of 98,894 REA shares on the market for $11.99 each

[4] N Dalton, Chief Information Office does not hold any performance rights as at 30 June 2012

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

Plan	Grant date	Earliest vesting date [2]	Value per performance right at grant date [1]	Performance achieved	% vested
LTI Plan 2011 (Plan 2)	1 July 2008	1 July 2011	$4.40	100-120%	100%
LTI Plan 2012 (Plan 3)	1 July 2009	1 July 2012	$5.72	100-120%	-
LTI Plan 2013 (Plan 4)	1 July 2010	1 July 2013	$9.99	to be determined	-
LTI Plan 2014 (Plan 5)	1 July 2011	1 July 2014	$11.11	to be determined	-

[1] The value of the performance rights at the grant date were previously determined using a Monte Carlo simulation. The LTI Plan 2014 values were determined using the Black Scholes model.

[2] Subject to board approval of the performance hurdles being met.

5.4 Employee Share Scheme

The Company also operates an annual Exempt Employee Share Plan. The terms of the Plan enable eligible employees to contribute either $425 per annum or $850 per annum from their before-tax salary by way of a salary sacrifice to acquire Shares in the Company. The contributed amount is deducted from their monthly pay in equal amounts over the twelve month period. The Company then contributes a bonus of $75 or $150 per annum to the Plan on behalf of the participating employee.

Employees are eligible to participate in the Plan if they are a permanent full time or permanent part-time employee of the REA Group in Australia and have passed their probation period as at the Invitation Date; and they are an Australian resident for tax purposes.

The shares acquired under the Plan are designed to be income tax-free upon initial acquisition provided the participating employee's adjustable taxable income for the year (which includes reportable fringe benefits, reportable superannuation contributions and negative gearing losses) is under the tax office's threshold (in 2012 it was $180,000 or less). There is a three-year restriction period on selling, transferring or otherwise dealing with the Exempt Shares while the participating employee remains an employee of the REA Group.

5.5 Service agreements

The table below sets out the main terms and conditions of the employment contracts of the CEO and senior executives. All contracts are for unlimited duration.

Name	Notice Period / Termination Payment
CEO	• 6 months either party (or payment in lieu) • Immediate for misconduct, breach of contract or bankruptcy • Statutory entitlements only for termination with cause
Senior executives	• 3 months (6 months for Country Manager - Italy) either party (or payment in lieu) • Immediate for misconduct, breach of contract or bankruptcy • Statutory entitlements only for termination with cause

REMUNERATION REPORT

5.6 Executive remuneration table

Details of the remuneration paid to the CEO and senior executives for the 2012 and 2011 financial years are set out below.

Name	Short term employee benefits $			Post employment benefits $	Long term employee benefits $	Termination benefits $	LTI Plan** $	Total $	Performance related %	LTIP %
	Salary	STI Plan*	Other							
G Ellis (CEO and Managing Director)										
2012	**674,224**	**256,780**	**-**	**15,775**	**12,610**	**-**	**288,322**	**1,247,711**	**44%**	**22%**
2011	645,540	500,480	-	15,199	6,578	-	248,661	1,416,458	53%	18%
J Macdonald[1] (Chief Financial Officer)										
2012	**400,000**	**151,388**	**-**	**15,775**	**6,805**	**-**	**45,832**	**619,800**	**32%**	**7%**
2011	98,723	22,540	-	8,885	-	-	-	130,148	17%	-
H Ruiz (Chief Product Officer)										
2012	**450,000**	**201,900**	**-**	**15,775**	**7,520**	**-**	**86,452**	**761,647**	**38%**	**11%**
2011	355,833	162,075	-	15,199	4,207	-	53,165	590,479	36%	9%
N Dalton[2] (Chief Information Officer)										
2012	**31,479**	**-**	**-**	**2,833**	**486**	**-**	**-**	**34,798**	**-**	**-**
2011	-	-	-	-	-	-	-	-	-	-

1 Employment commenced 28 March 2011.
2 Employment commenced 4 June 2012.

(contined on page 32)

5.6 Executive remuneration table (continued)

Name	Short term employee benefits $			Post employment benefits $	Long term employee benefits $	Termination benefits $	LTI Plan** $	Total $	Performance related %	LTIP %
	Salary	**STI Plan***	**Other**							
D Mancini (Country Manger – Italy)										
2012	**364,175**	**149,459**	**45,371**	**-**	**-**	**-**	**66,948**	**625,953**	**35%**	**11%**
2011	348,372	108,050	32,382	-	-	-	54,352	543,156	30%	10%
Former executive										
D Oertli[3] (Chief Information Officer)										
2012	**390,577**	**107,335**	**62,536[4]**	**15,775**	**(17,899)**	**141,024**	**(175,000)**	**524,348**	**-**	**-**
2011	450,000	260,825	-	15,199	4,349	-	92,831	823,204	43%	11%

3 Employment ceased 11 May 2012.

4 Provision for annual leave paid upon cessation of employment.

* Short Term Incentive Plan represents accrued payment for current year net of under/over accrual from prior year.

** Long Term Incentive Plan (LTIP) represents accrued expenses amortised over vesting period of grant. Refer to note 31 of the financial statements.

6. NON-EXECUTIVE DIRECTOR REMUNERATION

6.1 Policy

Overview of policy	The Board seeks to set fees for the non-executive directors 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. It is the Board's current policy that only the independent non-executive directors receive remuneration for their services as directors.
Aggregate fees approved by shareholders	The current aggregate fee pool for the non-executive directors of $700,000 was approved by shareholders at the 2011 AGM (increasing from $400,000). Board and committee fees, as well as statutory superannuation contributions made on behalf of the non-executive directors, are included in the aggregate fee pool.
Promote independence and objectivity	Non-executive director remuneration consists only of fixed fees (inclusive of superannuation). To preserve independence and impartiality, non-executive directors do not receive any performance related compensation.
Regular reviews of remuneration	Non-executive director fees are reviewed annually and set and approved by the Board based on independent advice received from external remuneration consultants (via the Human Resources Committee). As a result of advice received during the year, and to ensure fees remain at a level competitive with non-executive directors of comparable companies, Board and Committee fees were increased effective 1 July 2011.

6.2 Non-executive director fees

The table below shows the structure and level of non-executive director fees for the 2011 and 2012 financial years. As noted, only the independent directors receive a fee.

Fee applicable for 2012		Chair ($)	Member ($)
Board	**2012**	**N/A**	**80,000**
	2011	N/A	70,000
Audit Risk & Compliance Committee	**2012**	**15,000**	**7,500**
	2011	12,000	5,500
Human Resources Committee	**2012**	**15,000**	**7,500**
	2011	12,000	5,500

6.3 Non-executive director remuneration

Details of remuneration for the independent non-executive directors are set out in the table below. As outlined above, the News Limited nominee directors do not receive any directors' fees.

Non-executive directors		Fees and allowances $	Short-term Benefits $	Post Employment Benefits	Total $
R Amos	**2012**	**94,037**	**-**	**8,463**	**102,500**
	2011	80,274	-	7,225	87,499
K Conlon	**2012**	**94,037**	**-**	**8,463**	**102,500**
	2011	80,274	-	7,225	87,499
J McGrath	**2012**	**80,275**	**-**	**7,224**	**87,499**
	2011	69,267	-	6,537	75,804
Former non-executive directors					
S White	**2012**	**41,990**	**-**	**3,779**	**45,769**
	2011	69,267	-	6,537	75,804
TOTAL	**2012**	**310,339**	**-**	**27,929**	**338,268**
	2011	299,082	-	27,524	326,606

This Directors' Report and Remuneration Report is made in accordance with a resolution of directors.

Mr Hamish McLennan
Chairman

Mr Greg Ellis
CEO & Managing Director
Melbourne
16 August 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE 12 MONTHS ENDED 30 JUNE 2012

	Notes	2012 $'000	2011 $'000
Revenue from continuing operations		**277,613**	238,401
Employee benefits expenses	6	**(74,013)**	(67,363)
Consultant and contractor expenses		**(8,838)**	(10,285)
Marketing related expenses		**(32,315)**	(25,415)
Technology expenses		**(10,132)**	(8,924)
Net gain on sale of operations		**-**	2,050
Operations and administration expense		**(26,333)**	(25,283)
Depreciation and amortisation expense	6	**(15,184)**	(10,489)
Profit before tax and interest (EBIT)		**110,798**	92,692
Finance income		**8,108**	5,092
Finance costs	6	**(456)**	(498)
Profit before income tax		**118,450**	97,286
Income tax expense	7	**(31,668)**	(29,781)
PROFIT FOR THE YEAR		**86,782**	67,505
Other comprehensive income			
Foreign currency translation		**(962)**	(1,136)
Other comprehensive income for the year, net of tax		**(962)**	(1,136)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**85,820**	66,369
Profit for the year is attributable to:			
Non-controlling interest		**(189)**	(1,234)
Owners of the parent		**86,971**	68,739
		86,782	67,505
Total comprehensive income for the year is attributable to:			
Non-controlling interest		**(189)**	(1,357)
Owners of the parent		**86,009**	67,726
		85,820	66,369
Earnings per share for profit attributable to the ordinary equity holders of the company:		**Cents**	Cents
Basic earnings per share	30	**66.2**	53.1
Diluted earnings per share	30	**66.2**	53.1

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012

	Notes	2012 $'000	2011 $'000
ASSETS			
Current assets			
Cash and cash equivalents	8	**181,599**	137,543
Trade and other receivables	9	**42,470**	38,064
Total current assets		**224,069**	175,607
Non-current assets			
Plant and equipment	10	**5,652**	5,684
Intangible assets	11	**68,123**	63,971
Deferred tax assets	12	**3,045**	3,161
Total non current assets		**76,820**	72,816
Total assets		**300,889**	248,423
LIABILITIES			
Current liabilities			
Trade and other payables	13	**20,835**	23,828
Current tax liabilities		**7,161**	9,469
Provisions	14	**3,315**	3,197
Other current liabilities	15	**13,759**	12,839
Total current liabilities		**45,070**	49,333
Non-current liabilities			
Deferred tax liabilities	16	**3,185**	920
Provisions	17	**2,116**	1,234
Total non-current liabilities		**5,301**	2,154
Total liabilities		**50,371**	51,487
Net assets		**250,518**	196,936
EQUITY			
Contributed equity	18	**102,755**	88,404
Reserves	19	**(11,761)**	(5,280)
Retained earnings	20	**159,222**	109,579
Parent interest		**250,216**	192,703
Non-controlling interest		**302**	4,233
Total equity		**250,518**	196,936

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE 12 MONTHS ENDED 30 JUNE 2012

	Contributed Equity $000	Other Contributed Equity $000	Retained Earnings $000	FX Translation Reserve $000	Share-based Payment Reserve $000	Other Reserves $000	Owners of the parent $000	Non-controlling interest $000	Total equity $000
Balance at 1 July 2011	**88,404**	**-**	**109,579**	**(6,708)**	**860**	**568**	**192,703**	**4,233**	**196,936**
Profit for the year	**-**	**-**	**86,971**	**-**	**-**	**-**	**86,971**	**(189)**	**86,782**
Foreign currency translation differences	**-**	**-**	**-**	**(962)**	**-**	**-**	**(962)**	**-**	**(962)**
Total comprehensive income for the year	**-**	**-**	**86,971**	**(962)**	**-**	**-**	**86,009**	**(189)**	**85,820**
Transactions with owners in their capacity as owners									
Share-based Payment Reserve expense for the year	**-**	**-**	**-**	**-**	**551**	**-**	**551**	**-**	**551**
Settlement of vested performance rights	**(559)**	**152**	**-**	**-**	**(389)**	**-**	**(796)**	**-**	**(796)**
Acquisition of non-controlling interests (REA Italia)	**-**	**-**	**-**	**886**	**-**	**(6,567)**	**(5,681)**	**(3,742)**	**(9,423)**
Shares issued via DRP	**14,758**	**-**	**-**	**-**	**-**	**-**	**14,758**	**-**	**14,758**
Dividends paid	**-**	**-**	**(37,328)**	**-**	**-**	**-**	**(37,328)**	**-**	**(37,328)**
Balance at 30 June 2012	**102,603**	**152**	**159,222**	**(6,784)**	**1,022**	**(5,999)**	**250,216**	**302**	**250,518**

	Contributed Equity $000	Other Contributed Equity $000	Retained Earnings $000	FX Translation Reserve $000	Share-based Payment Reserve $000	Other Reserves $000	Owners of the parent $000	Non-controlling interest $000	Total equity $000
Balance at 1 July 2010	64,695	-	74,360	(5,695)	687	568	134,615	4,235	138,850
Profit for the year	-	-	68,739	-	-	-	68,739	(1,234)	67,505
Foreign currency translation differences	-	-	-	(1,013)	-	-	(1,013)	(123)	(1,136)
Total comprehensive income for the year	-	-	68,739	(1,013)	-	-	67,726	(1,357)	66,369
Transactions with owners in their capacity as owners									
LTIP share-based payment	-	-	-	-	173	-	173	-	173
Equity injections by non-controlling interests	-	-	-	-	-	-	-	1,355	1,355
Shares issued via DRP	23,709	-	-	-	-	-	23,709	-	23,709
Dividends paid	-	-	(33,520)	-	-	-	(33,520)	-	(33,520)
Balance at 30 June 2011	**88,404**	**-**	**109,579**	**(6,708)**	**860**	**568**	**192,703**	**4,233**	**196,936**

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE 12 MONTHS ENDED 30 JUNE 2012

	Notes	2012 $'000	2011 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**299,967**	255,767
Payments to suppliers and employees (inclusive of goods and services tax)		**(178,418)**	(155,318)
		121,549	100,449
Interest received		**7,548**	4,740
Interest paid		**-**	(30)
Income taxes paid		**(31,056)**	(28,753)
Share-based payment on settlement of FY11 LTIP		**(1,186)**	-
Net cash inflow from operating activities	29	**96,855**	76,406
Cash flows from investing activities			
Payment for acquisition of non-controlling interests in REA Italia	26	**(9,224)**	-
Purchase of plant and equipment	10	**(3,709)**	(3,704)
Purchase of intangible assets	11	**(16,906)**	(17,270)
Proceeds from sale of operations		**-**	2,050
Net cash (outflow) from investing activities		**(29,839)**	(18,924)
Cash flows from financing activities			
Proceeds from issues of ordinary shares in subsidiary		**-**	1,355
Repayment of loans from related party		**-**	1,278
Payment of dividend		**(22,570)**	(9,811)
Net cash (outflow) from financing activities		**(22,570)**	(7,178)
Net increase in cash and cash equivalents		**44,446**	50,304
Cash and cash equivalents at the beginning of the financial year		**137,543**	88,163
Effects of exchange rate changes on cash and cash equivalents		**(390)**	(924)
Cash and cash equivalents at end of year	8	**181,599**	137,543

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

1 CORPORATE INFORMATION

REA Group Limited (the Company) is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The consolidated financial statements of the Company as at and for the year ended 30 June 2012 comprise the financial statements of the Company and its subsidiaries (as outlined in Note 27) (together referred to in these financial statements as the "Group" and individually as "Group entities").

The nature of the operations and principal activities of the Group are described in the Directors' Report.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board. REA Group Limited is a for-profit entity for the purposes of preparing the financial report.

The financial statements of the Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2011 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2011.

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgments in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

The consolidated financial report of the Group for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the directors on 16 August 2012.

(b) Principles of consolidation

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. 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.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany transactions, balances and unrealised gains and losses resulting from intra-group transactions and dividends have been eliminated in full on consolidation.

Investments in subsidiaries held by REA Group Limited 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 (refer to 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 consolidated statement of financial position, separately from the equity of the owners of the parent. Losses are attributed to the non-controlling interest even if that results in a deficit balance.

The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group. Disposals of non-controlling interests that result in gains and losses for the Group 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.

(c) Operating segments

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 "other International" (Refer to note 5).

(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 environments in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars which is the Group's functional and presentational currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Foreign currency translation (continued)

Foreign exchange gains and losses that relate to borrowings are presented in the income statement within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income and other expenses.

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 in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(e) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

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 the 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

Revenue is recognised as interest accrues using the effective interest rate method.

(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.

Where there are current and deferred tax balances attributable to amounts recognised directly in equity, these 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 as of 1 July 2006.

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 standalone 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 2(z).

(g) Leases

Leases of plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (refer to note 25). 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 Group does not have any finance leases.

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 25). 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Business combinations

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. Upon loss of control, the Group derecognises the assets and liabilities of the subsidiary and non-controlling interests and other components of equity related to the subsidiary. Any surplus or deficit is measured in the profit or loss. If the group retains any interest in the previous subsidiary then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available for sale financial asset depending on the level of influence retained.

Any contingent consideration on the acquisition will be recognised 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.

(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 statement of financial position.

(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 between 15 – 45 days.

Collectability 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 from the date that the payment is due) 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.

(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.

Loans and receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 9) in the statement of financial position.

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. The cost of plant and equipment 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 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 10 years.

Gains or losses arising from derecognition 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.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after reporting date.

(q) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(r) Provisions

Provision for legal claims and make good obligations are recognised when the Group has a present obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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 and annual leave due to be settled within 12 months of the reporting date are recognised in other payables or provisions 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. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(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 up until LTI Plan 2013. The Black Scholes model has been used for the LTI Plan 2014 valuation. 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 31).

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.

(iv) Short term incentive plans

The Group recognises a liability and an expense for bonuses payable under short term incentive plans. Short term incentive plans are based on the achievement of targeted performance levels set at the beginning of each financial year. The Group recognises a liability to pay out short term incentives when the contractually obliged based on the achievement of the stated performance levels, or where there is a past practice that has created a constructive obligation.

(v) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted at present value.

(t) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(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; and
- by the weighted average number of ordinary shares outstanding during the financial year (note 30).

(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) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

(w) 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 statements of financial position as applicable.

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.

(x) 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)

(y) New standards and interpretations

(i) New standards effective from 1 July 2011

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2011. There are no new accounting standards that have been adopted during the year that had an impact of the financial results of the Group.

(ii) 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 2012, 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 9	Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)	Addresses the classification, measurement and derecognition of financial assets and liabilities.	1 January 2015	There will be no impact on the Group's accounting for financial assets or liabilities as the Group does not have any such items that may be impacted.	1 July 2015
AASB 10	Consolidated Financial Statements	AASB 10 replaces all of the guidance on control and consolidation in AASB 127. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. AASB 10 introduces a single concept of control for all entities. Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB 127.	1 January 2013	There will be no impact to the composition of Group's consolidated entities	1 July 2013
AASB 12	Disclosure of Interests in Other Entities	AASB 12 sets out the required disclosures for entities reporting under AASB 10 and AASB 11 and replaces disclosure requirements currently found in AASB 127 and AASB 128.	1 January 2013	There will be no impact on any amounts in the financial statements but will impact disclosure in relation to the Group's investments.	1 July 2013
AASB 128	Investments in Associates and Joint Ventures	AASB 128 clarifies that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes.	1 January 2013	There is no impact on the Group as the structure stands today.	1 July 2013
AASB 13	Fair Value Measurement and AASB2011-8 Amendments to Australian Accounting Standards arising from AASB 13	IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures; it does not change when an entity is required to use fair value. The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). It also provides guidance on how fair value should be measured.	1 January 2013	There will be no significant impact on the Group's fair value measurements.	1 July 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) Parent entity information

The financial information for the parent entity, REA Group Limited, disclosed in note 28 has been prepared on the same basis as the consolidated financial statements, except as set out below.

i) Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of REA Group Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

ii) Tax consolidation legislation

REA Group Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation. The head entity, REA Group Limited, and the controlled entities in the tax consolidated group continue to 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 tax payer 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.

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 taxes 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. Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable or payable to other entities in the group. Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

iii) Financial guarantees

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

3 FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments comprise receivables, payables, bank and intercompany loans, cash and short term deposits.

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 AS/NZS 150 31000:2009. 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 of financial instruments. The main purpose of these financial instruments (cash and cash equivalents) 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; and
- 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.

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

All 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.

At 30 June 2012

	Less than 6 months $'000	6 - 12 months $'000	Greater than 1 year $'000	Total $'000
Financial assets				
Cash and cash equivalents	181,599	-	-	181,599
Trade and other receivables	42,470	-	-	42,470
	224,069	-	-	224,069
Financial liabilities				
Trade and other payables	20,835	-	-	20,835
	20,835	-	-	20,835

At 30 June 2011

	Less than 6 months $'000	6 - 12 months $'000	Greater than 1 year $'000	Total $'000
Financial assets				
Cash and cash equivalents	137,543	-	-	137,543
Trade and other receivables	38,064	-	-	38,064
	175,607	-	-	175,607
Financial liabilities				
Trade and other payables	23,828	-	-	23,828
	23,828	-	-	23,828

(c) Interest rate risk

The Group's exposure to the risk of change in market interest rates relates primarily to the Group's holdings of cash and short term deposits. Domestic interest rate movements contribute to 100% (2011: 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 2012, the Group had the following financial assets and liabilities exposed to interest rate risk:

	Consolidated	
	2012 $'000	2011 $'000
Financial assets		
Cash and cash equivalents	181,599	137,543
	181,599	137,543
Financial liabilities	-	-
Net exposure	181,599	137,543

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group has managed its interest rate risk during the year by maximising the interest earned from the funds balanced against the working capital needs in line with the Group's cash management policy.

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 2012, with all other variables held constant, post tax profit and equity would have been affected by changes to interest rates on the cash reserves as illustrated in the table below.

	2012 $'000	2011 $'000
Post Tax Profit Higher /(Lower)		
+1.0% (100 basis points)	**1,271**	1,129
-1.0% (100 basis points)	**(1,271)**	(1,129)

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 consequently chosen the above variation which is representative for the annual average interest rate movements of the last two 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 SIGNIFICANT 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) Significant 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(i). 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 11 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 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 valuation previously using a Monte Carlo model, with the assumptions detailed in note 31. The LTI Plan 2014 (Plan 5) valuation was performance using the Black Scholes model. 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 senior executives (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. Corporate overhead includes the costs of certain head office functions that are not considered appropriate to be allocated to the Group's operating businesses. Discrete financial information about each of these operating businesses is reported to the senior executives 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 2012 and 30 June 2011.

2012	Australia $000	Italy $000	Other – International $000	TOTAL $000
Segment revenue				
Sales to external customers	246,224	22,414	8,975	277,613
Total consolidated revenue				**277,613**
Result				
Country EBITDA	129,620	875	2,495	132,990
Corporate overhead				(7,008)
EBITDA				**125,982**
Depreciation and amortisation				(15,184)
EBIT				**110,798**
Net finance income				7,652
Profit before income tax (EBT)				**118,450**
Income tax expense				(31,668)
Net profit for the year				**86,782**

2011	Australia $000	Italy $000	Other – International $000	TOTAL $000
Segment revenue				
Sales to external customers	213,595	16,599	8,207	238,401
Total consolidated revenue				**238,401**
Result				
Country EBITDA	112,086	(3,484)	1,034	109,636
Corporate overhead				(6,455)
EBITDA				**103,181**
Depreciation and amortisation				(10,489)
EBIT				**92,692**
Net finance income				4,594
Profit before income tax (EBT)				**97,286**
Income tax expense				(29,781)
Net profit for the year				**67,505**

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 EXPENSES

	2012 $'000	2011 $'000
Profit before income tax includes the following specific expenses:		
Expenses		
Depreciation of plant and equipment	**3,639**	3,554
Amortisation	**11,545**	6,935
Minimum lease payments	**3,245**	2,691
Loss/(gain) on disposal of plant and equipment	**7**	(6)
Employee benefits		
Salary costs	**68,811**	63,003
Defined contribution superannuation expense	**4,651**	4,187
Share-based payments	**551**	173
Total employee benefits	**74,013**	67,363
Finance costs		
Interest paid	**-**	30
Net foreign exchange loss	**456**	468
Total finance costs	**456**	498

7 INCOME TAX EXPENSE

	2012 $'000	2011 $'000
(a) Income tax expense		
Current tax	**32,762**	30,753
Adjustments for current tax of prior periods	**(3,627)**	(1,246)
Deferred tax	**908**	(933)
Adjustments for deferred tax of prior periods	**1,625**	1,207
Aggregate income tax expense	**31,668**	29,781
Deferred income tax (revenue) expense included in income tax expense comprises:		
Decrease in deferred tax assets (note 12)	**268**	443
(Decrease)/increase in deferred tax liabilities (note 16)	**2,265**	(168)
	2,533	275

7 INCOME TAX EXPENSE (CONTINUED)

	2012 $'000	2011 $'000
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	**118,450**	97,286
Tax at the Australian tax rate of 30% (2011 - 30%)	**35,535**	29,186
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Effect of foreign tax rate	**(28)**	(78)
Foreign subsidiary losses not recognised in the Group	**117**	1,532
Foreign subsidiary losses recognised by the Group (i)	**(428)**	-
Foreign branch tax losses not recognised (New Zealand)	**-**	(31)
Long term incentive plan	**(57)**	52
Research and development deduction	**(1,645)**	(955)
Prior year adjustments including premium research and development claim	**(2,002)**	-
Non-deductible legal fees	**185**	-
Other	**(9)**	75
Aggregate income tax expense	**31,668**	29,781

(i) This figure represents losses recognised at REA Group level in respect of Italian losses as a deferred tax asset (refer note 12)

	2012 $'000	2011 $'000
(c) Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:		
Current tax – credited directly to equity	**(240)**	**-**
Net deferred tax – credited directly to equity	**(152)**	**-**
	(392)	**-**
(d) Tax losses		
Unused tax losses for which no deferred tax asset has been recognised (not tax effected)	**18,570**	**17,745**

8 CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	2012 $'000	2011 $'000
Cash at bank and in hand	**7,447**	54,147
Short term deposits	**174,152**	83,396
	181,599	137,543

9 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	2012 $'000	2011 $'000
Net trade receivables		
Trade receivables	**44,187**	38,934
Provision for impairment of receivables (a)	**(4,278)**	(3,918)
	39,909	35,016
Prepayments	**1,292**	2,720
Other receivables (c)	**1,269**	328
	42,470	38,064

a) Impaired trade receivables

As at 30 June 2012 the amount of the provision was $4,278k (2011: $3,918k). The individually impaired receivables mainly relate to customers which are in unexpectedly difficult economic situations.

Movements in the provision for impairment of receivables are as follows:

	2012 $'000	2011 $'000
At 1 July	**(3,918)**	(3,744)
Provision for impairment recognised during the year	**(2,604)**	(2,377)
Receivables written off during the year as uncollectible	**2,244**	2,203
At 30 June	**(4,278)**	(3,918)

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 in profit or loss 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. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

b) Ageing of net trade receivables

	2012 $'000	2011 $'000
Not due	**32,614**	28,388
1-30 days past due not impaired	**4,086**	3,957
31-60 days past due not impaired	**893**	969
61+ days past due not impaired	**2,316**	1,702
Considered impaired	**4,278**	3,918
	44,187	38,934

c) Other receivables

The other receivables balance is mainly attributable to accrued revenue.

d) Foreign exchange and interest rate risk

Information about the Group's exposure to foreign risk and interest rate risk in relation to trade and other receivables is provided in note 3.

10 NON-CURRENT ASSETS – PLANT AND EQUIPMENT

Year ended 30 June 2012	Plant and equipment $'000	Leasehold improvements $'000	Total $'000
Opening net book amount	**4,834**	**850**	**5,684**
Exchange differences (net)	(38)	(38)	(76)
Additions	3,184	525	3,709
Disposals (net of accumulated depreciation)	(26)	-	(26)
Transfer	(142)	142	-
Depreciation charge	(3,097)	(542)	(3,639)
Closing net book amount	**4,715**	**937**	**5,652**
At 30 June 2012			
Cost	13,003	1,861	14,864
Accumulated depreciation	(8,288)	(924)	(9,212)
Net book amount	**4,715**	**937**	**5,652**
Year ended 30 June 2011			
Opening net book amount	5,285	531	5,816
Exchange differences (net)	(21)	2	(19)
Additions	2,964	740	3,704
Disposals (net of accumulated depreciation)	(241)	(22)	(263)
Depreciation charge	(3,153)	(401)	(3,554)
Closing net book amount	**4,834**	**850**	**5,684**
At 30 June 2011			
Cost	10,598	1,272	11,870
Accumulated depreciation	(5,764)	(422)	(6,186)
Net book amount	**4,834**	**850**	**5,684**

11 NON-CURRENT ASSETS – INTANGIBLE ASSETS

Year ended 30 June 2012	Goodwill $'000	Software[1] $'000	Customer contracts $'000	Total $'000
Opening net book amount	**41,570**	**19,854**	**2,547**	**63,971**
Additions	-	16,906	-	16,906
Amortisation charge[2]	-	(11,002)	(543)	(11,545)
Exchange differences	(1,064)	(66)	(79)	(1,209)
Closing net book amount	**40,506**	**25,692**	**1,925**	**68,123**
At 30 June 2012				
Cost	40,506	45,599	7,496	93,601
Accumulated amortisation and impairment	-	(19,907)	(5,571)	(25,478)
Net book amount	**40,506**	**25,692**	**1,925**	**68,123**
Year ended 30 June 2011				
Opening net book amount	42,957	8,771	3,518	55,246
Additions	-	17,270	-	17,270
Amortisation charge	-	(6,156)	(779)	(6,935)
Exchange differences	(1,387)	(31)	(190)	(1,608)
Disposals/Costs written off (net)	-	-	(2)	(2)
Closing net book amount	**41,570**	**19,854**	**2,547**	**63,971**
At 30 June 2011				
Cost	41,570	29,261	7,616	78,447
Accumulated amortisation and impairment	-	(9,407)	(5,069)	(14,476)
Net book amount	**41,570**	**19,854**	**2,547**	**63,971**

[1] Software includes capitalised development costs being an internally generated intangible asset.
[2] Amortisation charge is included in depreciation and amortisation expense in profit or loss.

11 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:

Australia

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 17.8% (2011: 16.2%) and cash flows beyond the five year period are extrapolated using a growth rate of 1.5% (2011: 2.9%).

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 19.1% (2011: 17.9%) and cash flows beyond the five year period are extrapolated using a growth rate of 3.8% (2010: 2.9%).

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 15% (2011: 16.3%) and cash flows beyond the five year period are extrapolated using a growth rate of 2.9% (2011: 4.0%).

Carrying amount of goodwill allocated to each of the cash generating units:

	2012 $000	2011 $000
Australia	**23,289**	23,289
Italy	**12,981**	14,160
Greater Luxembourg region	**4,236**	4,121
TOTAL	**40,506**	41,570

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 Australia 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 continued innovation of products. EBITDA margin is expected to grow consistent with prior periods.

Key assumptions used in "value in use" calculations for the 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 Greater 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.

12 NON-CURRENT ASSETS - DEFERRED TAX ASSETS

	2012 $000	2011 $000
The balance comprises temporary differences attributable to:		
Tax losses	**428**	-
Employee benefits	**1,314**	2,718
Doubtful debts	**579**	595
Accruals and other	**724**	(152)
	3,045	3,161
Deferred tax assets expected to be recovered within 12 months	**2,041**	3,161
Deferred tax assets expected to be recovered after more than 12 months	**1,004**	-
	3,045	3,161

Movements	Employee benefits $'000	Provision for doubtful debts $'000	Take over defence expenditure $'000	Tax losses $'000	Accruals & Other $'000	Total $'000
At 1 July 2010	2,625	671	7	-	301	3,604
(Charged)/credited to the income statements	93	(76)	(7)	-	(453)	(443)
At 30 June 2011	2,718	595	-	-	(152)	3,161
(Charged)/credited to the income statements	(1,404)	(16)	-	428	724	(268)
Credited to equity	-	-	-	-	152	152
At 30 June 2012	**1,314**	**579**	**-**	**428**	**724**	**3,045**

13 CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	2012 $'000	2011 $'000
Trade payables	**4,254**	3,679
Accrued expenses	**13,800**	17,079
Other payables	**2,781**	3,070
	20,835	23,828

Information regarding the effective interest rate and credit risk of current payables is set out in note 3.

14 CURRENT LIABILITIES – PROVISIONS

	2012 $'000	2011 $'000
Employee benefits	**3,268**	2,967
Rental lease incentive	**47**	230
	3,315	3,197

The current provision for employee benefits includes all accrued annual leave and long service leave which is expected to be used within the next 12 months.

15 CURRENT LIABILITIES – OTHER CURRENT LIABILITIES

	2012 $'000	2011 $'000
Deferred revenue - see note 2(e)	**13,759**	12,839

The Group and the parent entity do not have any borrowing facilities at reporting date, nor any undrawn borrowing facilities.

16 NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

	2012 $'000	2011 $'000
The balance comprises temporary differences attributable to:		
Intangible assets	**3,185**	793
Accrued income	**-**	105
Other	**-**	22
	3,185	920

Movements	Intangible assets $'000	Accrued income $'000	Unrealised FX gains $'000	Other $'000	Total $'000
At 30 June 2010	1,000	65	-	23	1,088
Charged/(credited) to the income statements	(147)	40	22	(23)	(108)
Foreign exchange adjustments	(60)	-	-	-	(60)
At 30 June 2011	793	105	22	-	920
Charged/(credited) to the income statements	2,392	(105)	(22)	-	2,265
At 30 June 2012	**3,185**	**-**	**-**	**-**	**3,185**

17 NON CURRENT LIABILITIES – PROVISIONS

	2012 $'000	2011 $'000
Employee benefits – long service leave	**640**	451
Employment severance indemnity	**976**	736
Rental lease incentive	**-**	47
Make good provision	**500**	-
	2,116	1,234

The make good provision was recognised in 2012 as a result of renegotiation of new and existing leases.

18 CONTRIBUTED EQUITY

	2012 Shares	2011 Shares	2012 $'000	2011 $'000
(a) Movement				
Ordinary shares				
Fully paid	**131,714,699**	130,401,680	**102,603**	88,404
Other contributed equity	**-**	-	**152**	-
Total consolidated contributed equity	**131,714,699**	130,401,680	**102,755**	88,404

(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.

Management has no current plans to issue further shares on the market.

At 30 June 2012, the Group is in a positive net-cash position and has no outstanding bank facilities.

The gearing ratios based on continuing operations at 30 June 2012 and 2011 were as follows:

	2012 $'000	2011 $'000
Total borrowings	**-**	-
Less: cash and cash equivalents	**181,599**	137,543
Net debt	Not existing	Not existing
Total equity	**250,518**	196,936
Total capital	**250,518**	196,936
Gearing ratio	**0%**	0%

The Group is not subject to externally imposed capital requirements.

(c) Movement in ordinary share capital:

Date	Details	Notes	Number of shares	Issue price	$'000
1 July 2011	Opening balance		130,401,680		88,404
14 October 2011	Dividend reinvestment plan issues	(d)	1,313,019	$11.24	14,758
31 August 2011	Settlement of LTI Plan 2011	(e)	-	-	(559)
30 June 2012	Balance		131,714,699		102,603

(d) Dividend reinvestment plan

On 21 February 2012, the REA Group Board advised that following a review of its capital management plan it had suspended the operation of the Plan for the 2012 interim dividend. This was further reviewed for the 2012 final dividend and a further decision was made to suspend the Plan. In accordance with the Plan Rules, instead of receipt of REA shares under the Plan, the Plan's participants received a cash payment for the 2012 interim dividend and will receive a further cash payment for the 2012 final dividend.

(e) Settlement of LTI Plan

The settlement of the LTI Plan during the year ended 30 June 2012 was performed through purchase of the shares directly from market, not issuing of shares. REA Group Limited does not hold treasury shares for the purpose of settlement of LTI Plans. Refer to note 31 for more details of LTI Plans.

19 RESERVES

	2012 $'000	2011 $'000
Reserves[1]		
Share-based payments reserve	**1,022**	860
Foreign currency translation reserve	**(6,784)**	(6,708)
Business combination reserve	**(5,999)**	568
	(11,761)	(5,280)

[1] Refer to Statement of Changes in Equity for movements

Share-based payments reserve: This amount represents the value of the Long Term Incentives that have been granted and are outstanding as at balance date (net of tax).

Foreign 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) with the remaining 30.6% being acquired in December 2011. Sky Italia is a subsidiary of News Corporation. (Refer to note 26).

20 RETAINED EARNINGS

Movements in retained earnings were as follows:

	2012 $'000	2011 $'000
Balance 1 July	**109,579**	74,360
Net profit for the year	**86,971**	68,739
Dividends paid during the year	**(37,328)**	(33,520)
Balance 30 June	**159,222**	109,579

21 DIVIDENDS

(a) Dividends declared or paid

The following dividends were declared or paid by the Group:

2012

	Per share	Total amount $000	Franked	Payment date
2011 Final	16.0 cents	20,864	30%	14 October 2011
2012 Interim	12.5 cents	16,464	30%	3 April 2012
Total amount		37,328		

2011

	Per share	Total amount $000	Franked	Payment date
2010 Final	16.0 cents	20,550	30%	15 October 2010
2011 Interim	10.0 cents	12,970	30%	15 April 2011
Total amount		33,520		

Under the dividend reinvestment plan, the participants elected to receive $14,758,000 of the 2012 interim dividend in shares and the remainder was paid in cash.

For further details on the Dividend Reinvestment Plan, refer to Note 18(d).

(b) Dividends not recognised at year end

On release of the 2012 accounts, the directors declared a final ordinary dividend for 2012 of $27 million (20.5 cents per share fully franked) to be paid on 27 September 2012 out of retained earnings as at 30 June 2012. The final dividend has not been recognised in the financial statements for the year ended 30 June 2012, but will be in subsequent financial reports. The impact on the franking account is disclosed in note (c) below.

(c) Franked dividends

The franked portions of the final dividends recommended after 30 June 2012 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 2012.

	2012 $'000	2011 $'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2011: 30%)	**92,979**	77,826
	92,979	77,826

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 $11.6 million (2011: $8.9 million).

22 KEY MANAGEMENT PERSONNEL DISCLOSURES

For a list of key management personnel and additional disclosures, refer to the remuneration report.

(a) Key management personnel compensation

	2012 $	2011 $
Short term employee benefits	**3,595,564**	3,350,872
Post employment benefits	**93,862**	76,218
Long term employee benefits	**9,522**	(10,166)
Termination benefits	**141,024**	-
Long Term Incentive Plan (LTIP)	**312,556**	299,010
	4,152,528	3,715,934

Detailed remuneration disclosures are provided in the remuneration report on pages 26 to 33.

(i) Share holdings of key management personnel

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

2012

Name	**Balance at the start of the year**	**Received during the year**	**Other changes during the year**	**Balance at the end of the year**
Non-executive directors				
Ordinary shares				
Mr R Amos	2,446	35	-	2,481
Ms K Conlon	2,217	31	-	2,248
Mr J D McGrath	144,855	1,225	-	146,080
Former non-executive				
Mr S R White[4]	576,416	8,206	-	584,622
Other key management personnel				
Ordinary shares				
Mr G Ellis[1] (executive director)	-	51,836	-	51,836
Mr H Ruiz [2]	90	6,388	-	6,478
Mr D Mancini	-	9,455	-	9,455
Former executives				
Mr D Oertli [3]	147	19,165	-	19,312

[1] Participant in Dividend Reinvestment plan [2] Share purchase plan participant
[3] Employment ceased 11 May 2012 [4] Directorship ceased 9 January 2012

2011

Name	**Balance at the start of the year**	**Received during the year**	**Other changes during the year**	**Balance at the end of the year**
Non-executive directors of REA Group Limited				
Ordinary shares				
Mr R Amos	2,395		51	2,446
Ms K Conlon	2,000	-	217	2,217
Mr J D McGrath	140,981		3,874	144,855
Mr S White	564,213	-	12,203	576,416
Other key management personnel of the Group				
Ordinary shares				
Mr D Oertli	82		65	147
Mr H Ruiz	90	-	-	90

22 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(ii) Performance right holdings of key management personnel

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

30 June 2012	**Balance at 1 July 2011**	**Granted as remuneration**	**Rights vested**	**Net change other#**	**Balance at 30 June 2012**	**Vested & exercisable**	**Not exercisable**
Mr G Ellis	107,447	34,456	(51,109)	-	**90,794**	34,965	55,829
Ms J Macdonald	-	12,376	-	-	**12,376**	-	12,376
Mr D Mancini	22,385	7,796	(9,455)	-	**20,726**	6,469	14,257
Mr H Ruiz	20,063	11,957	(6,388)	-	**25,632**	4,371	21,261
Mr D Oertli	40,167	11,120	(19,165)	(32,122)	**-**	-	-
Total	190,062	77,705	(86,117)	(32,122)	**149,528**	45,805	103,723

30 June 2011	**Balance at 1 July 2010**	**Granted as remuneration**	**Rights vested**	**Net change other#**	**Balance at 30 June 2011**	**Vested & exercisable**	**Not exercisable**
Mr G Ellis	80,420	27,027	-	-	107,447	45,455	61,992
Mr D Oertli	30,157	10,010	-	-	40,167	17,045	23,122
Mr D Mancini	14,878	7,507	-	-	22,385	8,409	13,976
Mr H Ruiz	10,052	10,011	-	-	20,063	5,682	14,381
Mr G Chmiel	60,315	-	-	(60,315)	-	-	-
Total	195,822	54,555	-	(60,315)	190,062	76,591	113,471

includes forfeitures

(b) Other transactions with key management personnel

Other than performance rights granted under the LTI Plan (Note 31) and noted above, there are no other options or rights over shares held by key management personnel.

NOTES TO THE FINANCIAL STATEMENTS

23 REMUNERATION OF AUDITORS

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

	2012 $	2011 $
(a) Ernst & Young		
(i) Audit and other assurance services		
Audit and review of financial statements	**362,500**	332,750
Total remuneration for audit and other assurance services	**362,500**	332,750
(ii) Taxation services		
International tax consulting	**7,000**	-
Total remuneration taxation services	**7,000**	-
Total remuneration of Ernst & Young Australia	**369,500**	332,750
(b) Related practices of Ernst & Young		
Audit and other assurance services		
Audit and review of financial statements	**89,130**	36,937
Total remuneration for audit and other assurance services	**89,130**	36,937
Total Ernst & Young remuneration	**458,630**	369,687
(c) Non- Ernst & Young audit firms		
Audit and other assurance services		
Audit and review of financial statements	**88,356**	110,086
Total remuneration of non-Ernst & Young audit firms	**88,356**	110,086
Total auditors' remuneration	**546,986**	479,773

24 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 2012 cannot be ascertained, and the REA Group Limited entity believes that any resulting liability would not materially affect the financial position of the Group.

Guarantees

At 30 June 2012, the Group had bank guarantees totaling $2.43 million in respect of various property leases for offices used by the Group. No liability is expected to arise.

25 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:

	2012 $'000	2011 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**5,993**	3,721
Later than one year but not later than five years	**7,224**	4,475
Greater than five years	**-**	486
	13,217	8,682

(ii) Finance Leases

The Group has no finance leases at 30 June 2012 (2011: nil)

(b) Other commitments

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

During 2012, all commitments relating to contracts to upgrade and expand the functionality of the Group's information technology platforms and systems were completed. There were no new capital or other commitments entered into. In 2011, the $6,721,000 of commitments disclosed related to one project that was completed within 12 months.

26 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 61.6% 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 the remuneration report page 26.

(c) Subsidiaries

Interests in subsidiaries are set out in note 27.

(d) Key management personnel

Disclosures relating to key management personnel are set out in note 22.

(e) Transactions with related parties

Sales of goods and services

During the year, the Group sold residential subscriptions and other advertising products at arm's length terms and normal terms and conditions to the franchisees and offices of the Ray White Group and to John McGrath Estate Agents.

Purchases of goods

During the year, the Group utilised advertising and support services of the News Limited Group of $168,000 (2011:$114,000) 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 Digital Media Pty Ltd, news.com.au and its sister sites (all owned by News Limited Group) and realestate.com.au have in place cross promotion arrangements (reciprocal link exchanges) at no charge.

Other transactions

During the year REA Group Limited paid a dividend of $12,800,000 (2011:$20,468,000) to News Limited, a wholly owned subsidiary of News Corporation. News Limited elected to receive this dividend as shares via the Group's dividend reinvestment plan. In addition, a 2012 interim dividend was paid in cash of $10,143,000.

26 RELATED PARTY TRANSACTIONS (CONTINUED)

(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. During 2012, realestate.com.au Pty Limited charged a group entity, casa.it srl in Italy a royalty fee of $1,120,000 (2011: $600,000) for the use of the REA 2.0 platform based on a % of the online advertising revenues.

(g) Loans to related parties

During 2011, Sky Italia Srl repaid in full a loan of $1,278,000 and accrued interest of $25,000 on the loan. Interest was paid at an effective rate of 2.0% (based on Euribor plus 120 basis points). There are no other loans to related parties.

(h) Acquisition of non-controlling interest in REA Italia

On 14 December 2011, REA Group Europe Limited acquired the remaining 30.6% non-controlling interest in REA Italia Srl held by Sky Italia Srl for cash consideration of €7.022 million (A$9.224 million) increasing its holding in REA Italia Srl from 69.4% to 100%. REA Group Europe Limited, a wholly owned subsidiary of REA Group, has held a controlling interest in REA Italia since February 2007. In accordance with Accounting Standard AASB 127: Consolidated and Separate Financial Statements, the entries to record this transaction are reflected in the equity section of the Statement of Financial Position.

27 CONTROLLED ENTITIES

(a) Investment in subsidiaries

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

Name of entity	Country of incorporation	Equity interest		Investment	
		2012 %	2011 %	**2012 $'000**	2011 $'000
property.com.au Pty Limited	Australia	**100**	100	**-**	-
realestate.com.au Pty Ltd	Australia	**100**	100	**31,495**	31,495
• homeguru Pty Limited	Australia	**56.2**	56.2	**-**	-
• ozhomevalue Pty Limited [1]	Australia	**56.2**	56.2	**-**	-
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 Hong Kong Limited	Hong Kong	**100**	100	**131**	131
• Square Foot Limited	Hong Kong	**100**	100	**-**	-
• Prime Media Limited	Hong Kong	**100**	100	**-**	-
• REA Group China Limited	China	**100**	100	**-**	-
REA Group Europe Limited	UK	**100**	100	**57,542**	48,334
• REA Italia Srl.	Italy	**100**	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	**-**	-
				89,168	79,960

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

[2] REA Group Europe Limited acquired the remaining 30.6% interest in REA Italia Srl on 14 December 2011. casa.it Srl is 100% owned by REA Italia Srl

27 CONTROLLED ENTITIES (CONTINUED)

(b) Deed of Cross Guarantee

Pursuant to ASIC 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 lodgement 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:

	2012 $000	2011 $000
Consolidated income statement		
Profit from continuing operations before income tax	**114,712**	99,060
Income tax expense	**(30,815)**	(29,259)
Profit for the year	**83,897**	69,801
Other comprehensive income		
Total comprehensive income for the year	**83,897**	69,801
Summary of movements in consolidated retained earnings		
Retained earnings at beginning of period	**134,586**	98,305
Dividends provided for or paid during the year	**(37,328)**	(33,520)
Retained earnings at end of period	**181,155**	134,586
ASSETS		
Current assets		
Cash and cash equivalents	**177,777**	131,820
Trade and other receivables	**35,674**	35,190
Other current assets	**2,071**	2,492
Total current assets	**215,522**	169,502
Non-current assets		
Investments in subsidiaries	**83,762**	74,554
Plant and equipment	**4,723**	4,677
Intangible assets	**24,655**	18,976
Deferred tax assets	**2,982**	3,037
Total non-current assets	**116,122**	101,244
Total assets	**331,644**	270,746

27 CONTROLLED ENTITIES (CONTINUED)

(b) Deed of Cross Guarantee (continued)

LIABILITIES	2012 $000	2011 $000
Current liabilities		
Trade and other payables	**20,977**	24,690
Current tax liabilities	**9,154**	9,280
Provisions	**2,881**	2,840
Other current liabilities	**9,931**	9,413
Total current liabilities	**42,943**	46,223
Non-current liabilities		
Deferred tax liabilities	**2,580**	127
Provisions	**1,189**	546
Total non-current liabilities	**3,769**	673
Total liabilities	**46,712**	46,896
Net assets	**284,932**	223,850
Contributed equity	**102,755**	88,404
Reserves	**1,022**	860
Retained earnings	**181,155**	134,586
Parent interest	**284,932**	223,850
Non-controlling interest	**-**	-
Total equity	**284,932**	223,850

28 PARENT ENTITY FINANCIAL INFORMATION

Information relating to the parent entity, REA Group Limited:

	2012 $000	2011 $000
Current assets	**174,971**	107,304
Non-current assets	**89,752**	80,062
Total assets	**264,723**	187,366
Current liabilities	**12,041**	17,884
Non-current liabilities	**-**	106
Total liabilities	**12,041**	17,990
Net assets	**252,682**	169,376
Contributed equity	**102,755**	88,404
Retained earnings	**148,905**	80,112
Reserves	**1,022**	860
Total shareholders' equity	**252,682**	169,376
Profit of the parent entity	**105,262**	32,466
Total comprehensive income of the parent entity	**105,262**	32,466

There were no contractual commitments or contingent liabilities by the parent entity for the acquisition of plant or equipment during the current financial year (2011: $nil).

For details of any guarantees entered into by the parent entity in relation to the debts of its subsidiaries refer to note 24.

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

	2012 $'000	2011 $'000
Profit for the year	**86,782**	67,505
Depreciation and amortisation	**15,184**	10,489
Gain on sale of operations	**-**	(2,050)
Long Term Incentive Plan expense	**551**	173
Net exchange differences	**390**	924
Loss/(gain) on disposal of fixed assets	**7**	(6)
Other non-cash items	**533**	339
Share-based payment on settlement of LTI Plan	**(1,186)**	-
Change in operating assets and liabilities		
(Increase) in trade and other receivables	**(4,893)**	(6,424)
Decrease / (increase) in other current assets	**487**	(845)
Decrease in deferred tax assets	**116**	443
Increase in other current liabilities	**920**	539
Increase / (decrease) in deferred tax liabilities	**2,265**	(168)
(Decrease) / increase in current tax liabilities	**(2,308)**	703
(Decrease) / increase in trade and other payables	**(2,993)**	4,122
Increase in provisions	**1,000**	662
Net cash inflow from operating activities	**96,855**	76,406

30 EARNINGS PER SHARE

	2012 Cents	2011 Cents
(a) Basic earnings per share		
From continuing operations attributable to the ordinary equity holders of the company	**66.2**	53.1
Total basic earnings per share attributable to the ordinary equity holders of the company	**66.2**	53.1
(b) Diluted earnings per share		
From continuing operations attributable to the ordinary equity holders of the company	**66.2**	53.1
Total diluted earnings per share attributable to the ordinary equity holders of the company	**66.2**	53.1

(c) Weighted average number of shares used as the denominator

	2012 Number	2012 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**131,334,426**	129,474,146
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	**131,334,426**	129,474,146

Profit attributable to the ordinary equity holders of the company of $86,971,000 (2011: $68,739,000) was used in calculating basic and diluted earnings per share.

There is no effect of the share options granted under the Long Term Incentive Plan (refer note 31) on the weighted average number of ordinary shares as shares issued under the LTI Plans 2012 will be purchased on market. There is no material effect on future settlement of LTI Plans.

31 SHARE-BASED PAYMENTS

(a) Long Term Incentive Plan

During the 2008 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 Human Resources 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.

There have been no cancellations or modifications to any of the plans during 2012 and 2011.

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.

Plan	Performance period end date	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited/ cancelled during the year	Balance at end of the year
		Number	Number	Number	Number	Number
LTI Plan 2011 (Plan 2)	1 July 2011	87,955	10,939	(98,894)	-	-
LTI Plan 2012 (Plan 3)	1 July 2012	67,657	-	-	(13,112)	54,545
LTI Plan 2013 (Plan 4)	1 July 2013	64,564	-	-	(10,010)	54,554
LTI Plan 2014 (Plan 5)	1 July 2014	-	92,659	-	(9,000)	83,659
Total		220,176	103,598	(98,894)	(32,122)	192,758

Rights are vested after the performance period. The LTI Plan 2012 rights performance period ends at the end of the year and they will vest upon approval by the Board in August 2012. 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

As all other performance periods lie in the future, no performance rights are exercisable (or have been exercised) at balance date. The tables below show the number of performance rights granted at grant date.

Plan	Grant Date	Performance Period	Vesting date (and earliest exercise date)	Number of Rights granted	Value of Rights as at grant date
				Number	$
LTI Plan 2011 (Plan 2)	1 July 2008	2011	1 July 2011	155,645	684,838
LTI Plan 2012 (Plan 3)	1 July 2009	2012	1 July 2012	125,350	717,002
LTI Plan 2013 (Plan 4)	1 July 2010	2013	1 July 2013	70,570	705,000
LTI Plan 2014 (Plan 5)	1 July 2011	2014	1 July 2014	92,659	1,029,441

31 SHARE-BASED PAYMENTS (CONTINUED)

The fair value of each performance right is estimated on the grant date previously using a Monte Carlo simulation. For the LTI Plan 2014 (Plan 5), the Black Scholes model has been used. The simulated share price for LTI Plan was estimated based on a forward calculator. All valuations were performed independently by KPMG.

The plan hurdles for both the LTI Plan 2011 and 2012 have been met (refer to the remuneration report, pages 26 to 33).

Plan	Weighted average fair value per right at grant date	Simulated share price at vesting date	Exercise price	Expected volatility	Risk free interest rate	Expected life of performance right
LTI Plan 2011 (Plan 2)	$4.40	$5.23	$0.00	38.4%	5.785%	38 months
LTI Plan 2012 (Plan 3)	$5.72	$6.54	$0.00	38.4%	5.785%	38 months
LTI Plan 2013 (Plan 4)	$9.99	$11.58	$0.00	40.5%	4.409%	38 months
LTI Plan 2014 (Plan 5)	$11.11	$12.99	$0.00	35.0%	4.838%	38 months

The dividend yield of 2.17% (2011 1.5%) applied reflects the fact that REA Group only started paying dividends in 2009 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 $551,000 (2011: $173,000).

(b) Share option plan

The Company also operates an annual Exempt Employee Share Plan. The terms of the Plan enable eligible employees to contribute either $425 per annum or $850 per annum from their before-tax salary by way of a salary sacrifice to acquire Shares in the Company. The contributed amount is deducted from their monthly pay in equal amounts over the twelve month period. The Company then contributes a bonus $75 or $150 per annum to the Plan on behalf of the participating employee.

Employees are eligible to participate in the Plan if they are a permanent full time or permanent part-time employee of the REA Group in Australia and have passed their probation period as at the Invitation Date and they are an Australian resident for tax purposes.

The shares acquired under the Plan are designed to be income tax-free upon initial acquisition provided the participating employee's adjustable taxable income for the year (which includes reportable fringe benefits, reportable superannuation contributions and negative gearing losses) is under the tax office's threshold (in 2012 it was $180,000 or less). There is a three-year restriction period on selling, transferring or otherwise dealing with the Exempt Shares while the participating employee remains an employee of the REA Group.

32 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.

REA GROUP LIMITED
DIRECTORS' DECLARATION

In the directors' opinion:

a) the financial statements and notes of the consolidated entity set out on pages 34 to 69 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 2012 and of its performance for the financial year ended on that date; and

   ii) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;

b) Note 2(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board;

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) the directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2012; 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 27 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 Hamish McLennan
Chairman

Mr Greg Ellis
Managing Director
Melbourne

16 August 2012

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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF REA GROUP LIMITED

Report on the financial report

We have audited the accompanying financial report of REA Group Ltd, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard *AASB 101 Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's 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, the auditor considers 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 complied with 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.

Opinion

In our opinion:

a. 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 as at 30 June 2012 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the remuneration report

We have audited the Remuneration Report included in pages 26 to 33 of the directors' report for the year ended 30 June 2012. 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.

Opinion

In our opinion, the Remuneration Report of REA Group Ltd for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

David Petersen
Partner
16 August 2012
Melbourne, Australia

SHAREHOLDER INFORMATION

Additional information required by the Australian Stock Exchange Listing Rules and not shown elsewhere in this report is as follows. The information is current as at 12 September 2012.

(a) Distribution Schedule of Shareholders

REA Group Limited has 131,714,699 fully paid ordinary shares which are held by 2,402 shareholders. All issued ordinary shares carry one vote per share and carry the rights to declared dividends. The number of shareholders, by size of holding of are:

Holding	No. of shareholders	No. of ordinary shares
1 – 1000*	1,345	491,001
1,001 – 5,000	752	1,807,172
5,001 – 10,000	145	1,096,194
10,001 – 100,000	132	3,329,772
100,001 and over	28	124,990,560
	2,402	**131,714,699**

*There were 214 holders of less than a marketable parcel of 33 ordinary shares.

(b) Top Twenty Registered Shareholders

Name	Ordinary shares	
	Number held	% of issued shares
News Limited	81,141,397	61.60
J P Morgan Nominees Australia Limited	10,574,865	8.03
National Nominees Limited	10,558,694	8.02
HSBC Custody Nominees (Australia) Limited	4,497,394	3.41
BNP Paribas Noms Pty Ltd <Master Cust Drp>	3,788,358	2.88
UBS Nominees Pty Ltd <PB Seg A/C>	3,285,913	2.49
Citicorp Nominees Pty Limited	3,069,492	2.33
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	1,327,448	1.01
UBS Nominees Pty Ltd	1,090,569	0.83
Effie Holdings Pty Limited	950,000	0.72
JP Morgan Nominees Australia Limited <Cash Income A/C>	607,056	0.46
Meruma Pty Ltd <Meruma Investment A/C>	584,622	0.44
Smallco Investment Manager Ltd <The Cut A/C>	414,927	0.32
Mutual Trust Pty Ltd	408,976	0.31
Mirrabooka Investments Limited	393,045	0.30
Holdex Nominees Pty Ltd <No 384 A/C>	315,087	0.24
Mr Vivian Faram Findlow	292,239	0.22
Holdex Nominees Pty Ltd <No 393 A/C>	261,523	0.20
Amcil Limited	218,045	0.17
HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C>	199,167	0.15
Total	**123,978,817**	**94.13**

(c) Substantial Shareholders

The names of substantial shareholders of the Company (holding not less than 5%) who have notified the Company in accordance with section 671B of the Corporations Act are set out below:

	Ordinary shares	
	Number held	Percentage
News Limited	81,141,397	61.6%
Hyperion Asset Management Limited	13,394,657	10.2%

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CORPORATE INFORMATION

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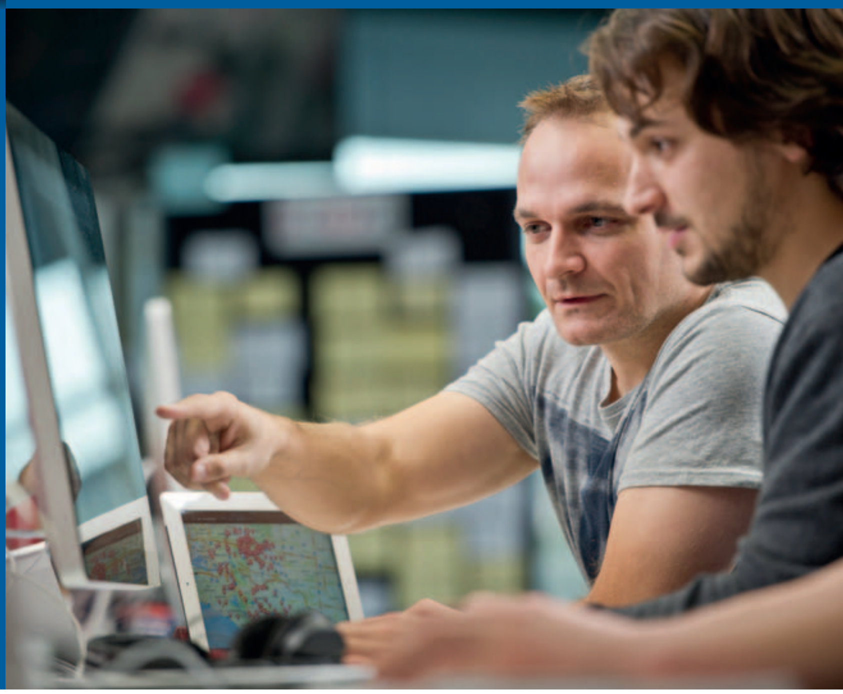
Company secretary	Ms Rebecca Liatis
Share register	Computershare Registry Services Pty Limited Yarra Falls 452 Johnson Street Abbotsford, VIC 3067 Australia (within Australia) 1300 855 080 (international) +61 3 9415 4000 www.investorcentre.com/contact



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