



Annual Report 2012



Enero Group Limited

ABN 97 091 524 515

Contents

Corporate Governance Statement	4
Directors' Report (including the Remuneration Report)	11
Consolidated income statement	27
Consolidated Statement of comprehensive income	28
Consolidated Statement of changes in equity	29
Consolidated Statement of financial position	30
Consolidated Statement of cash flows	31
Notes to the consolidated financial statements	32
Directors' Declaration	87
Independent Auditor's Report	88
Lead Auditor's independence declaration	90

Corporate Governance Statement

This statement outlines the corporate governance policies and practices of Enero, in the context of the Corporate Governance Principles and Recommendations that have been set by the ASX Corporate Governance Council (**ASX Guidelines**).

The table below sets down each of the Recommendations made in the ASX Guidelines and indicates where the relevant disclosure can be found in this report. Enero considers that its governance practices are consistent with all of the Recommendations contained in the ASX Guidelines.

A copy of the ASX Guidelines can be obtained from the ASX website at www.asx.com.au.

Recommendation	Section
Recommendation 1.1	Functions of the Board and management 1.1
Recommendation 1.2	Evaluation of senior Executives 1.2 and Remuneration Report
Recommendation 1.3	Reporting on Principle 1 1.1, 1.2 and Remuneration Report
Recommendation 2.1	Independent Directors 2.1 and Directors' Report
Recommendation 2.2	Independent Chair 2.2
Recommendation 2.3	Role of the Chair and CEO 2.3
Recommendation 2.4	Establishment of a Nomination Committee 2.4
Recommendation 2.5	Performance evaluation of the Board, Committees and Directors 2.5, 2.6, 2.7 and Remuneration Report
Recommendation 2.6	Retirement and re-election 2.6
Recommendation 2.7	Appointment of new Directors 2.7
Recommendation 2.8	Reporting on Principle 2 2.1, 2.2, 2.3, 2.4, 2.5, Directors' Report and Remuneration Report
Recommendation 3.1	Company Code of Conduct 3.1
Recommendation 3.2	Diversity policy 3.2, 3.3
Recommendation 3.3	Promoting diversity 3.2, 3.3
Recommendation 3.4	Representation of women in the Company 3.4
Recommendation 3.5	Reporting on Principle 3 3.1, 3.2, 3.4
Recommendation 4.1	Establishment of Audit Committee 4.1
Recommendation 4.2	Structure of Audit Committee 4.2, Directors' Report and Director profiles
Recommendation 4.3	Audit Committee Charter 4.3
Recommendation 4.4	Reporting on Principle 4 4.1, 4.2, 4.3, Directors' Report and Director profiles
Recommendation 5.1	Policy for compliance with continuous disclosure 5.1
Recommendation 5.2	Reporting on Principle 5 5.1
Recommendation 6.1	Communications strategy 6.1
Recommendation 6.2	Reporting on Principle 6 6.1
Recommendation 7.1	Policies on risk oversight and management 7.1
Recommendation 7.2	Risk management roles and responsibilities 7.1 and 7.2
Recommendation 7.3	Statement of CEO and CFO in relation to systems 7.3
Recommendation 7.4	Reporting on Principle 7 7.1, 7.2 and 7.3
Recommendation 8.1	Establishment of Remuneration Committee 8.1 and Director profiles
Recommendation 8.2	Executive and Non-Executive Directors' remuneration 8.1, 8.2, Directors' Report and Financial Statements
Recommendation 8.3	Reporting on Principle 8 8.1, 8.2, Director profiles, Directors' Report and Financial Statements

Principle 1: Lay solid foundations for management and oversight

1.1 Functions of the Board and management

1.1.1 Role of the Board and management

The Board has approved a formal Board Charter, which details the Board's role, powers, duties and functions. A copy of the Board Charter is available on the Eneo website.

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Consolidated Entity. It is required to do all things that may be necessary to be done, in order to carry out the objectives of the Consolidated Entity.

Without intending to limit this general role of the Board, the principal functions and responsibilities of the Board include the following:

1. **Leadership of the organisation:** overseeing the Consolidated Entity and establishing codes that reflect the values of the Company and guide the conduct of the Board, management and employees.
2. **Strategy formulation:** working with senior management to set and review the overall strategy and goals for the Company.
3. **Overseeing planning activities:** overseeing the development of the Consolidated Entity's strategic plan and approving that plan as well as the annual and long-term budgets.
4. **Shareholder liaison:** ensuring effective communications with shareholders through an appropriate communications policy and promoting participation at general meetings of the Company.
5. **Monitoring, compliance and risk management:** overseeing the Company's management of material business risks, compliance, control and accountability systems and monitoring and directing the financial and operational performance of the Company.
6. **Company finances:** approving expenses in excess of those approved in the annual budget and approving and monitoring acquisitions, divestitures and financial and other reporting.
7. **Human resources:** appointing and, where appropriate, removing the Chief Executive Officer (CEO) and Executives as well as reviewing the performance of the CEO and monitoring the performance of senior Executives in their implementation of the Company's strategy.
8. **Ensuring the health, safety and wellbeing of employees:** in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to ensure the wellbeing of all employees.
9. **Delegation of authority:** other than as specifically reserved to the Board in the Board Charter,

responsibility for the management of Eneo's business activities is delegated to the CEO who is accountable to the Board. The Board has also delegated specific authorities to various Board Committees.

1.1.2 Conflicts of interest

Directors must:

- disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the Director and the interests of any other parties in carrying out the activities of the Consolidated Entity; and
- if requested by the Board, within seven days or such further period as may be permitted, take such necessary and reasonable steps to remove any conflict of interest.

If a Director cannot or is unwilling to remove a conflict of interest, then the Director must, as per the *Corporations Act*, absent himself or herself from the room when discussion and/or voting occurs on matters about which the conflict relates.

1.1.3 Related party transactions

Related party transactions include any financial transaction between a Director and the Consolidated Entity and will be reported in writing to each Board meeting. Unless there is an exemption under the *Corporations Act* from the requirement to obtain shareholder approval for the related party transaction, the Board cannot approve the transaction.

1.2 Evaluation of senior Executives

1.2.1 Induction of senior Executives

New Executives undertake an induction program upon joining Eneo, including comprehensive briefings on the Company's businesses, and its policies and procedures. The program includes meetings with people in key internal and external roles in order to start developing the relationships necessary to meet the requirements of their role.

As discussed further below and in the Remuneration Report, key performance indicators are agreed with each Executive to ensure goals and performance measures are fully understood and disclosed.

1.2.2 Performance evaluation of senior Executives

The performance evaluation of key Executives is undertaken by the Board, in conjunction with the CEO, on both a formal regular and informal ongoing basis. Each senior Executive's performance is reviewed at least annually. Performance evaluation of senior Executives has taken place during the reporting period in accordance with the process disclosed.

The process for evaluating the performance of senior Executives and the remuneration policy for senior Executives is further discussed in the Remuneration Report.

Corporate Governance Statement

Principle 2: Structure the Board to add value

2.1 Independent Directors

The Constitution of the Company provides that the number of Directors must not be less than three and not more than 13. The names of the Directors of the Company in office at the date of this report are set out in the Directors' Report on page 11 of this report, including the period of office held by each Director as at the date of this report. There are currently seven Directors, each of whose skills, experience and expertise are described in their Director profiles on page 11. There are two Executive Directors (Matthew Melhuish and Stephen Gatfield) and five Non-Executive Directors (John Porter, Susan McIntosh, Brian Bickmore, Roger Amos and Max Johnston).

The Board meets the ASX Corporate Governance Council's recommendation that a majority of the Board should be independent. Four members of the Board, John Porter, Brian Bickmore, Roger Amos and Max Johnston, are independent according to the definition in the ASX Guidelines. Susan McIntosh is not considered independent because she is an officer of the RG Capital group of companies, which has a substantial holding in Enero. The Board believes that its current composition has the required skills and independence of thought and judgment to ensure that decisions are made by the Board in the best interests of the Company.

The Board regularly assesses whether each Non-Executive Director is independent, based on the criteria specified in the Board Charter (which is consistent with the criteria set out in Recommendation 2.1 of the ASX Guidelines).

The Board does not have a formal procedure for Directors to take professional advice at the expense of the Company; however, the Directors have the ability to do so.

2.2 Independent Chair

The Chair of Enero, John Porter, is a Non-Executive Director and an independent Director. This meets with the ASX Recommendation that the Chairman should be an independent Director. John Porter assumed the role of Chair on 24 April 2012 on the resignation of Brian Bickmore as Chair (also a Non-Executive Director and independent Director).

2.3 Role of the Chair and CEO

The roles of Chair and CEO are not exercised by the same individual. The division of responsibilities between the Chair and the CEO has been agreed by the Board.

2.4 Establishment of a Nomination Committee

The Board has a Remuneration and Nomination Committee Charter whose purpose is to seek and nominate qualified candidates for election or appointment to Enero's Board. Details regarding the composition and responsibilities of this Committee are set out in item 8.1 of this Corporate Governance Statement.

2.5 Performance evaluation of the Board, Committees and Directors

2.5.1 Induction and education

New Directors undergo an induction process in which they are given a full briefing on the Consolidated Entity. This includes meetings with key Executives, an induction package and presentations. Information available to new Directors includes:

- formal policies on Director appointments as well as conduct and contribution expectations;
- details of all relevant legal requirements;
- a copy of the Board Charter;
- background information on, and contact information for, key people in the organisation, including an outline of their roles and capabilities;
- an analysis of the Consolidated Entity;
- a synopsis of the current strategic direction of the Company, including a copy of the current strategic plan and annual budget; and
- a copy of the Constitution of the Company.

2.5.2 Performance review

The Chair is responsible, in the first instance, for monitoring the contribution of individual Directors, and providing guidance on any areas of improvement.

The Board undertakes an annual self-assessment of both its collective performance and that of individual Directors and seeks specific feedback from the senior management team on particular aspects of its performance. The Remuneration and Nomination Committee oversees this annual performance assessment program.

In addition, each Board Committee undertakes an annual self-assessment of the performance of the committee and the achievement of committee objectives. The performance of the CEO is reviewed annually by the Remuneration and Nomination Committee and the Board. The performance of the CEO is reviewed annually against set performance goals and competencies. Performance evaluation of the Board, its committees and Directors has taken place during the reporting period in accordance with the process disclosed.

2.6 Retirement and re-election

As required under Enero's Constitution and the ASX Listing Rules, and excluding any Managing Director or Director newly appointed during the relevant year, at each Annual General Meeting one-third of the Directors must retire from office. Retiring Directors are eligible for re-election by shareholders.

No Director (other than the Managing Director) may hold office for more than three years without standing for re-election and any Director appointed by the Board since the previous Annual General Meeting must stand for election by no later than the next Annual General Meeting.

2.7 Appointment of new Directors

When a vacancy exists for a Board position, through whatever cause, or where the Board considers that it would benefit from the services of a new member with particular skills, the Remuneration and Nomination Committee will consider candidates having regard to:

- what may be appropriate for the Company;
- the skills, expertise and experience of the candidates;
- the desirability of those skills, expertise and experience when combined with those of the existing Directors; and
- the perceived compatibility of the candidates with the Company and with the existing Directors.

Potential candidates to be appointed as Directors will be considered by the Board. The Board will appoint the most suitable candidates who (assuming that they consent to act as Directors) continue in office only until the next Annual General Meeting and are then eligible for election.

The terms and conditions of the appointment of all new members of the Board must be specified in a letter of appointment to be signed by the Chair with the authority of the Board.

The Board is committed to ensuring that Directors appointed to the Board hold a mix of skills and experience and that board composition reflects the Company's commitment to diversity.

Principle 3: Promote ethical and responsible decision making

3.1 Company Code of Conduct

To assist the Board in carrying out its functions, Eneo has developed a Code of Conduct to guide the Directors, the CEO and other key Executives in the performance of their roles. The Company Code of Conduct was adopted by resolution of the Board on 27 May 2004. This Code includes the following:

Responsibilities to shareholders and the financial community generally

The Company complies with the spirit, as well as the letter of all laws and regulations that govern shareholders' rights. The Company has processes in place designed to ensure the truthful and factual presentation of the Company's financial position and prepares and maintains its accounts fairly and accurately in accordance with the generally accepted accounting and financial reporting standards.

Responsibilities to clients, customers and consumers

Each employee has an obligation to use their best efforts to deal in a fair and responsible manner with each of the Company's suppliers and customers.

Employment practices

The Company endeavours to ensure that its employees maintain the highest standard of conduct at all times and to provide an environment in which there is equal opportunity for all employees at all levels of the Company. The Company does not tolerate the offering or acceptance of bribes or the misuse of Company assets or resources.

Obligations relative to fair trading and dealing

The Company aims to conduct its business fairly and to

compete ethically and in accordance with relevant laws. The Company strives to deal fairly with the Company's customers, suppliers, competitors and other employees and encourages its employees to strive to do the same.

Conflicts of interest

Employees and Directors must avoid conflicts, as well as the appearance of conflicts, between personal interests and the interests of the Company. Employees are required to sign up to terms of employment which include specific reference to their responsibilities in relation to conflicts of interest.

Compliance with legislation affecting its operations

Directors, officers and senior Executives of the Company and all subsidiaries are responsible for setting up and maintaining a system of internal controls, financial and otherwise, in order to provide reasonable assurance of effective and efficient operations, reliable financial information and reporting, and compliance with laws and regulations.

How the Company monitors and ensures compliance with its Code

The Board, management and all employees of the Company are committed to implementing this Code of Conduct and each individual is accountable for such compliance. Disciplinary measures may be imposed for violating the Code.

A copy of the Code is available on the Eneo website.

3.2 and 3.3 Diversity policy and promoting diversity

The Board has adopted a Diversity policy which describes the Company's commitment to ensuring a diverse mix of skills and talent amongst its Directors, officers and employees, to enhance Company and group performance. The Diversity policy addresses equal opportunities in the hiring, training and career advancement of Directors, officers and employees. The Diversity policy outlines the process by which the Board will set measurable objectives to achieve the aims of its Diversity policy, with particular focus on gender diversity within the group. The Board is responsible for monitoring group performance in meeting the Diversity policy requirements, including the achievement of diversity objectives.

The Company promotes an environment which is conducive to the employment of well qualified employees, senior management and Board candidates regardless of gender, race or age. Individual entities are responsible for and are encouraged to adopt work practices which ensure that they are able to attract and keep the best employees, regardless of gender, age or race; such measures include flexible work practices, part-time work and, in some instances, paid maternity leave which exceeds the prescribed amounts in the Australian Government Paid Parental Leave Scheme.

The Company continues to monitor and seek to identify ways in which it can promote a corporate culture which embraces diversity when determining the composition of employees, senior management, and the Board, including continuing to recruit employees and directors from a diverse pool of qualified candidates.

Corporate Governance Statement

3.4 Representation of women in the Company

Women are well represented at Board and senior management level within the Company. Susan McIntosh has been a Director of Enero since June 2000 and is one of seven Directors on the Board. The Company Secretary of Enero is a woman. Women comprised approximately 15% of the Board, 27% of Senior Managers and 48% of employees across the Company as at the conclusion of the reporting period.

The Remuneration and Nomination Committee has been charged with the duty to review and report annually on the relative proportion of women and men in the workforce at all levels of the Enero Group.

Principle 4: Safeguard integrity in financial reporting

4.1 Establishment of Audit Committee

The Audit Committee monitors and reviews the effectiveness of the Consolidated Entity's controls in the areas of operational and balance sheet risk, legal, compliance and financial reporting. The Committee discharges these responsibilities by:

- overseeing the adequacy of the controls established by senior management to identify and manage areas of potential risk and to safeguard the assets of Enero;
- overseeing Enero's relationship with the external auditor and the external audit function generally; and
- evaluating the processes in place to ensure that accounting records are properly maintained in accordance with statutory requirements, and that financial information provided to investors and the Board is accurate and reliable.

The Audit Committee has also adopted a policy on the provision of non-audit services, and complies with the statutory requirements regarding the rotation of external audit personnel. All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor. The non-audit services provided do not undermine the general principals relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company, or jointly sharing risks and rewards.

Members of management and the external auditors attend meetings of the Audit Committee by invitation. The Audit Committee may also have access to financial and legal advisers, in accordance with the Board's general policy.

4.2 Structure of Audit Committee

The Audit Committee consists only of Non-Executive Directors, including a majority of independent Directors. The current members of the Audit Committee are Brian Bickmore, Susan McIntosh and Roger Amos. Roger Amos has been the Chair of this Committee since 1 March 2011. He is an independent Director. All members can read and understand financial statements and are otherwise financially literate.

The details of the members' qualifications can be found in their Director profiles on page 11.

Details of the number of meetings of the Audit Committee and the names of attendees can be found in the Directors' Report on page 14. The Audit Committee meets with an external auditor at least twice a year.

4.3 Audit Committee Charter

The Audit Committee Charter sets out the Committee's role and responsibilities, structure, membership requirements and procedures. The Committee meets at least four times each year and reports to the Board on all matters within its role and responsibilities.

The Audit Committee reviews the audited annual and half yearly financial statements and other reports which accompany published financial statement before submission to the Board and recommends their approval.

The Audit Committee also recommends to the Board the appointment of the external auditor each year and reviews the appointment of the external auditor, their independence, the audit fee, and any question of resignation or dismissal.

The Audit Committee is also responsible for establishing policies on risk oversight and management.

A copy of the Charter is available on the Enero website.

Principle 5: Make timely and balanced disclosure

5.1 Policy for compliance with continuous disclosure

Enero has established a Continuous Disclosure Plan to ensure compliance with the ASX Listing Rule disclosure requirements.

The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX, as well as communicating with the ASX. In accordance with the ASX Listing Rules, the Company immediately notifies the ASX of information:

- concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
- that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

A copy of the Company's Continuous Disclosure Plan is available on the Enero website.

Principle 6: Respect the rights of shareholders

6.1 Communications strategy

To facilitate the effective exercise of the rights of shareholders, the Company is committed to ensuring that all external communications with shareholders will:

- be factual;
- not omit material information; and
- be timely and expressed in a clear and concise manner.

Where practicable, Eneo uses the latest widely available electronic technology to communicate openly with shareholders and the market in general. Announcements to the ASX and notices of meetings are posted on the Company's website and retained there for at least three years.

The Company encourages shareholders to participate in general meetings of the Consolidated Entity. The Company seeks to choose a date, venue and time for the Annual General Meeting that is convenient to the greatest number of its shareholders, and takes reasonable measures to ensure the attendance of the external auditor to answer questions from shareholders about the conduct of the audit and the preparation and content of the auditor's report.

The Company also makes available a telephone number and email address for shareholders to make enquiries of the Consolidated Entity.

Principle 7: Recognise and manage risk

7.1 Policies on risk oversight and management

Eneo recognises that identification and effective management of risk are viewed as an essential part of good corporate governance and the Company's approach to creating long-term shareholder value.

Eneo has therefore established and implemented the Risk Management Policy designed to identify and respond to risks in a way that creates value for Eneo shareholders and to allow the Company to meet its long-term growth objectives. The Risk Management Policy includes specific risk management activities in core areas of risk for the Consolidated Entity, including: operational, financial reporting and compliance risks.

The Risk Management Policy adopted by the Company includes:

- process for identification of the material business risks faced by the Company;
- prioritisation of material business risks;
- where the level of risk is greater than the risk tolerance, identification of controls to manage the risk; and
- ongoing reporting and discussion of material business risks throughout the year.

Risk management is a key element of Eneo's strategic planning and decision-making. Eneo strives to balance the risks and rewards in conducting business to optimise returns, in accordance with its goals of delivering shareholder value and its commitments to stakeholders, customers and the broader community.

7.2 Risk management roles and responsibilities

Management, through the CEO, is responsible for designing, implementing and reporting on the adequacy of the Company's risk management and internal control system. Management reports to the Audit Committee on the Company's key risks and the extent to which it believes these risks are being managed. This is performed on an annual basis or more frequently as required by the Board.

The Board is responsible for satisfying itself annually, or more frequently as required, that management has developed and implemented a sound risk management and internal control system. Detailed work on this task is delegated to the Audit Committee and reviewed by the Board. The Audit Committee also oversees the adequacy of the Company's risk reporting from management.

Strategic and operational risks are reviewed at least annually by all operating divisions as part of the annual strategic planning and budgeting process. The CEOs of the Company's subsidiaries are required to report to the Board each month on operational risks. These are then reviewed by the CEO, Group Finance Director and General Counsel each month and external auditors as part of the half-yearly reporting to the market.

The General Counsel monitors the Company's compliance with its legal and regulatory obligations. Senior management meets regularly to deal with specific areas of risk, such as treasury risk and exposure to interest rates and foreign exchange rates, and provides reporting to the Board on these areas at least annually.

The Company will provide updates to any changes in its circumstances in press releases on the investor section of the Company's website.

7.3 Statement of CEO and CFO in relation to systems

The Board has received assurance from the CEO and the Group Finance Director that the declaration provided by them in accordance with section 295A of the *Corporations Act 2001* is founded on a sound system of risk management and internal control and that, in their opinion, the Company's risk management system is operating effectively in all material respects in relation to financial reporting risks.

The Board notes that due to its nature, internal control assurance from the CEO and Group Finance Director can only be reasonable rather than absolute. This is due to such factors as the need for judgment and because much of the evidence available is persuasive, rather than conclusive, and therefore is not and cannot be designed to detect all weaknesses in control procedures.

Principle 8: Remunerate fairly and responsibly

8.1 Establishment of Remuneration Committee

The Remuneration and Nomination Committee has adopted a Charter, a copy of which is available on the Company's website.

8.1.1 Role

The Remuneration and Nomination Committee reviews and makes recommendations to the Board on remuneration packages and policies, including but not limited to succession planning, recruitment and the appointment of

Corporate Governance Statement

the CEO, senior Executives and Directors themselves, and overseeing succession planning, selection and appointment practices and remuneration packages for management and employees of Enero.

The objectives of the Committee include to:

- review, assess and make recommendations to the Board on the desirable competencies of the Board;
- assess the performance of the members of the Board;
- oversee the selection and appointment practices for Non-Executive Directors and senior management of Enero;
- develop succession plans for the Board and oversee the development of succession planning in relation to senior Executives; and
- assist the Board in determining appropriate remuneration policies.

8.1.2 Composition

- Brian Bickmore, Susan McIntosh, Roger Amos and Max Johnston are the current members of the Remuneration and Nomination Committee. All members of the Committee are Non-Executive Directors and all members, bar Susan McIntosh, are independent Directors. Brian Bickmore, the Chair of the Remuneration and Nomination Committee, is an independent Director.
- Details of the number of meetings of the Remuneration and Nomination Committee and the names of the attendees can be found in the Directors' Report on page 14.

8.1.3 Responsibilities

- The responsibilities of the Remuneration and Nomination Committee include setting policies for senior officers' remuneration, setting the terms and conditions of employment for the CEO, reviewing and making recommendations to the Board on the Company's incentive schemes and superannuation arrangements, making recommendations to the Board on any proposed changes to the Board, and undertaking an annual review of the CEO's performance, including setting the CEO goals for the coming year and reviewing progress in achieving these goals.

8.2 Executive and Non-Executive Directors' remuneration

The Senior Executive Remuneration Policy was approved by resolution of the Board in September 2004 and the Non-Executive Director Remuneration Policy was approved by resolution of the Board on 25 March 2004.

8.2.1 Senior Executive Remuneration Policy

The Consolidated Entity is committed to remunerating its senior Executives in a manner that is market-competitive and consistent with best practice, as well as supporting the interests of shareholders. Consequently, under the Senior Executive Remuneration Policy, the remuneration of senior Executives may be comprised of (or some combination of) the following:

- fixed salary that is determined from a review of the market and reflects core performance requirements and expectations;
- a performance bonus designed to reward actual achievement by the individual of performance objectives and for materially improved Company performance;
- participation in the equity based incentive scheme with thresholds approved by shareholders; and
- statutory superannuation.

By remunerating senior Executives through performance and long-term incentive plans, in addition to their fixed remuneration, the Company aims to align the interests of senior Executives with those of shareholders, and increase Company performance.

Details of the amount of remuneration, including both monetary and non-monetary components, for each of the five highest paid (non-Director) Executives during the year (discounting accumulated entitlements) is detailed in the Directors' Report and Note 21 of the notes to the financial statements.

8.2.2 Non-Executive Director Remuneration Policy

The Constitution provides that the Non-Executive Directors are each entitled to be paid such remuneration from the Company as the Directors decide for their services as a Director, but the total amount paid to all Non-Executive Directors for their services must not exceed in aggregate in any financial year the amount fixed by the Company in a general meeting. This amount is currently fixed at \$750,000. The remuneration of Non-Executive Directors must not include a commission on, or a percentage of, profits or operating revenue. Directors may also be reimbursed for travelling and other expenses incurred in attending to the Company's affairs. Directors may be paid such additional or special remuneration as the Directors decide is appropriate where a Director performs extra services or makes exertions for the benefit of the Company.

Non-Executive Directors are entitled to statutory superannuation, but do not otherwise receive retirement benefits.

Details of the amount of remuneration, including both monetary and non-monetary components, for each of the Directors paid during the year (discounting accumulated entitlements) is detailed in the Directors' Report and Note 22 of the notes to the financial statements.

Directors' Report

The Directors present their report, together with the financial statements of Eneo Group Limited (**the Company**) and of the Consolidated Entity, being the Company and its controlled entities and the Company's interest in associates, for the year ended 30 June 2012 and the auditor's report thereon.

Directors

The Directors of the Company at any time during or since the end of the financial year are:

John Porter – Independent Non-Executive Chairman

John was appointed as Chairman and Non-Executive Director of the Company on 24 April 2012. Prior to joining Eneo Group, John Porter was Executive Director and Chief Executive Officer of Austar United Communications Limited from June 1999 to April 2012. John was Managing Director of Austar Entertainment Pty Limited from July 1997 to December 1999. From January 1997 to August 1999, he also served as the Chief Operating Officer of United Asia Pacific, Inc. ("UAP"). He led the establishment of Austar Entertainment Pty Limited in 1995, and by doing so played an integral role in the development of Australia's subscription television industry. Prior to joining Austar, John spent ten years in various senior management capacities for Time Warner Cable, a subsidiary of Time Warner, Inc. He has more than 30 years of management experience in the US and Australian subscription television industries. John is also currently Non-Executive Director and Chairman on the board of oOh!media and a Councillor on the Cranbrook School Council.

Matthew Melhuish – CEO and Executive Director

Matthew was appointed Chief Executive Officer and Executive Director of the Company on 16 January 2012. Matthew has over 25 years' experience in the advertising and marketing industry across a range of roles in Australia and the UK. Prior to being appointed CEO, Matthew had been the key executive overseeing the Company's Australian Agencies business. Matthew is a founding partner of leading creative agency, BMF and was CEO of that business for 15 years from its inception through to BMF being named as Agency of the Decade. Matthew is a respected leadership figure within the Australian Advertising industry. He is currently Chairman of the EFFIE's Advertising Effectiveness Awards and he has played a key role for over 15 years as a National Board member of the peak industry body, The Communications Council and as a National Board member and National Chairman of its predecessor organisation the Advertising Federation of Australia (AFA). Matthew is a current Board member of the Sydney Festival and was a Board member of the international aid organisation Medecins Sans Frontieres/Doctors without Borders (MSF) for 10 years.

Stephen Gatfield – Executive Director

Stephen was appointed as Executive Director of the Company on 24 April 2012. He is also Co-chairman of Naked Communications. Prior to joining Naked in June 2011, Stephen was formerly EVP of Interpublic Group responsible for corporate development and led the acquisition of businesses in e-commerce, healthcare and new ventures in Brazil, India and China. Prior to this he was COO Worldwide for Leo Burnett and Global CEO of

Lowe Worldwide. He is also a director of Believe Entertainment.

Brian Bickmore – Independent Non-Executive Director

Brian was appointed as a Non-Executive Director of the Company on 25 March 2004 and was Non-Executive Chairman between 1 July 2010 and 24 April 2012. In 1980, he was a founding Executive of Austereo and served as a Director of the Company for almost 25 years until 2004. Brian is the Chairman of the privately held food retailer and franchisor Pie Face. He was initially Austereo's Finance Director and from 1997 was the Group General Manager. He was previously a Director of RG Capital Radio Limited. Brian is the Chairman of the Remuneration and Nomination Committee and a member of the Audit Committee.

Susan McIntosh – Non-Executive Director

Susan was appointed as a Non-Executive Director of the Company on 2 June 2000. Susan has more than 25 years' business experience in media (international television production and distribution and radio) and asset management, and is the Managing Director of RG Capital Holdings (Australia) Pty Ltd. Prior to joining RG Capital, Susan was Chief Financial Officer of Grundy Worldwide Ltd and played an integral role in the establishment of its international television operations and in the eventual sale of the company in 1995. Susan was previously a Director of RG Capital Radio Ltd and E*TRADE Aust Ltd. Susan is a member of the Institute of Chartered Accountants. Susan is a member of the Audit Committee and Remuneration and Nomination Committee.

Roger Amos – Independent Non-Executive Director

Roger was appointed as a Non-Executive Director of the Company on 23 November 2010. Roger is Chairman of Tyrian Diagnostics Limited and a member of its audit committee. He is a Director of REA Group Limited, Chairman of its audit committee and a member of its remuneration committee. He was a Director of Austar United Communications Limited, the Chairman of its audit and risk committee and a member of its remuneration committee until April 2012. All are publicly listed Australian companies. He is the Chairman of Opera Foundation Australia and a Governor of the Cerebral Palsy Alliance Research Foundation. Roger retired in 2006 after 25 years as a Partner of KPMG, where he focused on the information, communication and entertainment sector and held a number of global roles. Roger is a Fellow of the Institute of Chartered Accountants and a member of the Australian Institute of Company Directors. Roger is the Chairman of the Audit Committee and a member of the Remuneration and Nomination Committee.

Max Johnston – Independent Non-Executive Director

Max was appointed as a Non-Executive Director of the Company on 28 April 2011. Max is a Non-Executive Director of Probiotec Limited. For 11 years he was President and Chief Executive Officer of Johnson & Johnson, Pacific and an Executive Director of Johnson & Johnson. Max has also held several prominent industry roles, including as a past President of ACCORD Australasia Limited, a former Vice Chairman of the Australian Food and Grocery Council and a former member of the Board of ASMI. He has had extensive

Directors' Report

overseas experience during his career in leading businesses in both Western and Central-Eastern Europe and Africa. Max is a member of the Remuneration and Nomination Committee.

Company Secretary

Eleni North was appointed Company Secretary on 11 February 2009. She is also the General Counsel of the Consolidated Entity. Prior to joining Enero, Eleni was Vice President, Legal at Travelport. Eleni has a Bachelor of Economics and a Bachelor of Laws (Honours) from the Australian National University. She is admitted to practise as a lawyer in Australia and the United Kingdom.

Officers who were previously partners of the audit firm

Roger Amos was officer of the Company during the financial year and was previously partner of the current audit firm, KPMG, at the time when KPMG undertook an audit of the Group.

Principal activities

The principal activities of the Consolidated Entity during the course of the financial year were integrated marketing and communication services, including strategy, market research, advertising, public relations, communications planning graphic design, events management, direct marketing, and corporate communications.

During the year the Consolidated Entity disposed of the Field Marketing operating segment and no longer specialises in retail marketing and merchandising. Other than the disposal, there were no significant changes in the nature of the activities in the Consolidated entity during the year.

Review and results of operations

Reconciliation of loss after tax to Operating EBITDA

In thousands of AUD	2012	2011
Loss after tax (including discontinued operations)	(142,626)	(59,738)
Income tax expense	3,654	8,826
Loss before tax	(138,972)	(50,912)
Impairment of intangible assets (i)	128,165	70,286
Impairment of held for sale assets (iii)	5,192	–
Impairment of assets disposed	–	17,195
Loss on sale of subsidiaries (ii) (iv)	50,204	6,803
Depreciation and amortisation expenses	7,896	15,296
Fair value gain on deferred consideration	(50,760)	(29,739)
Net finance expenses	4,584	15,220
Present value interest expenses	4,292	9,106
Restructuring costs	10,212	–
Operating EBITDA (including discontinued operations)	20,813	53,255
Operating EBITDA of discontinued operation (ii)	(6,627)	(24,476)
Operating EBITDA of continuing operations	14,186	28,779

(i) For further details on the impairment of intangible assets please refer to Note 17 Intangible assets of this preliminary final report.

- (ii) The Field Marketing Division was divested on 30 November 2011, and the operating segment has been classified as a discontinued operation. Refer to Note 7 Discontinued Operations of this preliminary final report for details of contribution to the loss after taxation for the discontinued operation.
- (iii) During the current reporting period, the Consolidated Entity resolved to dispose of the BWM business. As such, this asset group has been classified as held for sale at 30 June 2012. Further detail in relation to the asset group held for sale is provided in Note 14 Disposal group classified as held for sale.
- (iv) During the current reporting period, the Consolidated Entity also disposed of the Image Box and ISS Marketing businesses. Further detail in relation to disposal of subsidiaries is provided in Note 29 Disposals of subsidiaries of this preliminary final report.

Basis of preparation

The Directors' Report includes Operating EBITDA as measures used by the directors and management in assessing the ongoing performance and position of the Consolidated Entity. Operating EBITDA is a non-IFRS measure and has not been audited or reviewed.

Operating EBITDA is calculated as net profit excluding net finance costs, income taxes, depreciation, amortisation, loss on sale of subsidiaries, fair value adjustments to deferred consideration, impairment, and restructure charges. Operating EBITDA, which is reconciled above is the primary measure used by management and the directors in assessing the performance of the Consolidated Entity. It provides information on the Consolidated Entity's cash flow generation excluding significant transactions and non-cash items which are not representative of the Consolidated Entity's ongoing operations.

Disposals

2012

On 2 September 2011, the Consolidated Entity entered into a sale agreement to dispose of the Retail Insight point of sale data business for a consideration of USD\$11,000,000. The sale was completed with proceeds received on the same day. The Consolidated Entity recognised a loss on sale of \$9,208,000 in the income statement for the year ended 30 June 2012. The loss net of tax in the income statement was \$11,492,000 after tax expense of \$2,284,000 was recognised.

On 2 November 2011, the Consolidated Entity entered into a sale agreement to dispose of the Field Marketing segment businesses for a consideration of \$146,500,000. This sale was completed with proceeds received from the disposal of these businesses and control passing to the acquirer on 30 November 2011. The Consolidated Entity recognised a loss on sale of \$40,495,000 in the income statement for the year ended 30 June 2012. The loss net of tax in the income statement was \$33,552,000 after a non-cash benefit of \$6,943,000 to income tax was recognised.

On 31 May 2012, the Consolidated Entity disposed of the Image Box business for nominal consideration.

The transaction was carried out on an arm's length basis and consideration was considered to be at fair value.

The Consolidated Entity recognised a loss on sale of \$350,000 in the income statement for the year ended 30 June 2012. The gain net of tax in the income statement was \$883,000 after a non-cash benefit of \$1,233,000 to income tax was recognised.

On 29 June 2012, the Consolidated Entity disposed of the ISS Marketing business for nominal consideration. The transaction was carried out on an arm's length basis and consideration was considered to be at fair value. The Consolidated Entity recognised a loss on sale of \$151,000 in the income statement for the year ended 30 June 2012. The gain net of tax in the income statement was \$3,805,000 after a non-cash benefit of \$3,956,000 to income tax was recognised.

2011

On 22 December 2010, the Consolidated Entity entered into a share sale agreement to dispose of the businesses Be Interactive, C4 Communications, Returnity and Messagenet for a consideration of \$75,300,000. On 22 December 2010, the Consolidated Entity's control over these businesses passed to the acquirer. The proceeds from the disposal of these businesses were received on 12 January 2011. The Consolidated Entity recognised a loss on sale of \$4,272,000 in the income statement for the year ended 30 June 2011.

On 22 December 2010, the Consolidated Entity also resolved to dispose of the Sledge and Findology businesses for nominal consideration. The transactions were considered to be arm's length. During the year, an impairment charge of \$17,195,000 was recognised in the income statement in relation to these assets. The sales were completed on 13 January 2011 and 14 January 2011 respectively and at such time the Consolidated Entity recognised a further loss on sale of \$2,531,000 primarily in relation to the respective amounts held in the foreign currency translation reserve at the date of sale.

The Consolidated Entity recognised a tax benefit of \$3,380,000 in relation to the above disposals of subsidiaries.

Further detail in relation to the above is provided in Note 7 and Note 29 of the notes to the consolidated financial statements.

Change of name

The name of company was changed from Photon Group Limited to Enero Group Limited. This name change was approved by shareholders in an Extraordinary General Meeting held on 8 June 2012.

Dividends

No dividend was declared during the year ended on 30 June 2012 or after the balance sheet date at the date of this report.

	Note
Dealt with in the financial statements as:	
– Dividends	24

State of affairs

There were no significant changes in the state of affairs of the Consolidated Entity during the financial year.

Issue of shares and share options

A total of 14,618,523 shares were issued to deferred consideration beneficiaries pursuant to the deferred consideration element of the recapitalisation completed in September 2010.

During the year ended 30 June 2012 a total of 6,750,300 (30 June 2011: 6,908,500) were released from escrow conditions and recognised as share capital as individual earn out periods have been completed.

During the year ended 30 June 2012 a total of 586,389 shares were released from escrow and transferred into a trust held by the Company as the escrow conditions were not met when individual earn out periods were completed. On 12 January 2012 an additional 111,111 shares forfeited by Jeremy Philips were transferred into the trust held by the Company. Of these share held in trust the Company issued 39,642 shares to its employees as equity settled bonuses and recognised these as share capital.

As at 30 June 2012, a total of 373,334 shares (30 June 2011: 7,710,023) remain in escrow conditions awaiting completion of individual earn out periods.

As at 30 June 2012, the Company has 657,858 shares in a trust account held by the Company for future use against long-term incentive equity schemes where required.

Enero Group Limited completed a one for eighteen share consolidation in June 2012, being the conversion of every eighteen fully paid ordinary shares on issue into one fully paid share. The share consolidation was approved by shareholders in an Extraordinary General Meeting held on 8 June 2012.

During the year ended 30 June 2011, the Company introduced a Share Appreciation Rights plan, designed to provide long-term incentive to senior Executives of Enero and its subsidiaries.

On 18 August 2011, the Company issued 5,292,208 Share Appreciation Rights to certain Executives of Enero and its subsidiaries under a Share Appreciation Rights plan.

On 12 January 2012, the Company issued 888,889 Share Appreciation Rights to the Chief Executive Officer, Matthew Melhuish under the Share Appreciation Rights plan. The issue is subject to shareholder approval.

Directors' Report

Directors' meetings

The number of Directors' meetings (including meetings of committees of Directors) and the number of meetings attended by each of the Directors of the Company during the financial year are:

Director	Board meetings		Audit Committee meetings		Remuneration and Nomination Committee meetings	
	A	B	A	B	A	B
John Porter	2	3	—	—	—	—
Matthew Melhuish	6	6	—	—	—	—
Stephen Gatfield	1	3	—	—	—	—
Brian Bickmore	13	13	3	4	3	3
Susan McIntosh	12	13	4	4	3	3
Roger Amos	12	13	4	4	3	3
Max Johnston	13	13	—	—	2	3

A – Number of meetings attended.

B – Number of meetings held during the time the Director held office during the year.

Directors' interests

The relevant interest of each Director in the shares or options issued by the Consolidated Entity, as notified by the Directors to the Australian Securities Exchange in accordance with section 205G(1) of the *Corporations Act 2001*, at the date of this report is as follows:

Director	Ordinary shares	Share Appreciation Rights
John Porter	270,833	Nil
Matthew Melhuish	737,242	1,222,223
Stephen Gatfield	Nil	333,334
Susan McIntosh	122,223	Nil
Brian Bickmore	40,671	Nil
Roger Amos	7,556	Nil
Max Johnston	27,778	Nil
Total	1,206,303	1,555,557

Share options**Unissued shares under option**

At the date of this report, unissued shares of the Company under option are:

Expiry date	Number of options	Exercise price
26 August 2012	5,556	\$93.06
30 September 2012 ⁽ⁱ⁾	852,556	\$0.63
10 October 2012	17,224	\$87.30
10 October 2012 ⁽ⁱ⁾	13,889	\$87.30
28 February 2013	834	\$80.82
30 September 2013 ⁽ⁱ⁾	13,889	\$40.68
30 September 2013	8,558	\$33.12
30 September 2013 ⁽ⁱⁱ⁾	1,476,365	\$0.63
30 June 2014	8,333	\$11.16
30 September 2014 ⁽ⁱⁱ⁾	2,001,445	\$0.63
26 October 2014	14,587	\$19.98
30 September 2015 ⁽ⁱⁱⁱ⁾	395,062	\$0.63
Total unissued shares under options granted	4,808,298	
Share Appreciation Rights ⁽ⁱⁱ⁾	(4,725,428)	
Total unissued shares under option⁽ⁱⁱⁱ⁾	82,870	

(i) Represents options held by former Executives.

(ii) Represents Share Appreciation Rights.

(iii) 3,997,023 shares issued to Jeremy Philips under a limited recourse loan are treated as in-substance options but are not included in the above table.

These options in the table above do not entitle the holder to participate in any share issue of the Company.

Shares issued on exercise of options

During or since the end of the financial year, no ordinary shares were issued by the Company as a result of the exercise of options.

Events subsequent to balance date

On 10 August 2012, the Consolidated Entity announced and completed the sale of its 51% interest in subsidiary Belgiovane Williams Mackay (**BWM**) for \$7,500,000 in cash consideration. Concurrent to the sale process, the remaining deferred consideration liabilities to the vendors of BWM were also settled. The impacts of this transaction have been brought to account in the financial statements for the year ended 30 June 2012.

Also on 10 August 2012, The Consolidated Entity reduced its debt facility arrangements with its lender ANZ such that the debt facility is \$10,000,000.

Please refer to Note 32 Subsequent events for further details.

Other than the matters discussed above, there has not arisen, in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

Likely developments

Information about likely developments and business strategy in the operations of the Consolidated Entity and the expected results of those operations in the future financial years have not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Consolidated Entity.

Indemnification and insurance of officers and auditors
Indemnification

The Company has agreed to indemnify the following current Directors of the Company: John Porter, Matthew Melhuish, Stephen Gatfield, Susan McIntosh, Brian Bickmore, Roger Amos, Max Johnston and Company Secretary Eleni North against liabilities to another person (other than the Company or a related body corporate) that may arise from their positions as Directors, Secretaries or Executives of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any liabilities, including costs and expenses.

The Company has also agreed to indemnify the current Directors and Secretaries of its controlled entities for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreements stipulate that the Company will meet the full amount of any such liabilities, including costs and expenses.

Insurance premiums

During the financial year, the Company has paid insurance premiums in respect of Directors' and Officers' liabilities, for current Directors and Officers covering the following:

- costs and expense incurred by the relevant officers in defending proceedings, whether civil or criminal; and
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

The Directors have not included details of the amount of the premium paid in respect of the Directors' and Officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contract.

Directors' Report

Non-audit services

During the year KPMG, the Company's auditor, has performed certain other services in addition to its statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and in accordance with advice provided by resolution of the Audit Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- Non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- Non-audit services provided do not undermine the general principals relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company, or jointly sharing risks and rewards.

A copy of the Lead Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is on page 90 of this annual report.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for non-audit services provided during the year are set out below. In addition, amounts paid to other auditors for the statutory audit have been disclosed in Note 5 of the notes to the financial statements.

	2012 \$	2011 \$
<i>Services other than statutory audit</i>		
Auditors of the Company		
<i>Taxation compliance services:</i>		
KPMG Australia	–	13,500
Overseas KPMG firms	218,000	173,519
<i>Transaction and due diligence services:</i>		
KPMG Australia	5,000	325,000
Total services other than statutory audit	223,000	512,019

Rounding off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial statements and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Remuneration report – Audited

1 Principles of remuneration

Compensation is referred to as remuneration throughout this report.

1(a) Remuneration policies

The key management personnel who have authority and responsibility for planning, directing and controlling the activities of the Consolidated Entity include the Directors of the Company and the senior Executives of the Company and the Consolidated Entity.

The remuneration levels for key management personnel of the Consolidated Entity are competitively set to attract and retain appropriately qualified and experienced Directors and senior Executives.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives and achieve the long-term creation of value for shareholders.

The compensation structures take into account:

- the responsibility, performance and experience of key management personnel;
- the key management personnel's ability to control the relevant Company's performance;
- the Consolidated Entity's performance, including:
 - the Consolidated Entity's earnings;
 - the growth in share price and delivering constant returns on shareholder wealth; and
 - the Consolidated Entity's achievement of strategic objectives.

Remuneration packages contain a mix of fixed and variable remuneration, short-term and long-term performance-based incentives and equity-based remuneration.

The Remuneration and Nomination Committee reviews and makes recommendations to the Board on remuneration packages and policies, including but not limited to recruitment and the appointment of the Chief Executive Officer, senior Executives and Directors themselves and overseeing succession planning, selection and appointment practices, and remuneration packages for management and employees of Enero.

1(b) Fixed remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost-to-Company basis and includes fringe benefits tax charges related to employee benefits, including motor vehicles), as well as employer contributions to superannuation/pension funds.

Remuneration levels are reviewed annually by the Remuneration and Nomination Committee through a process that considers the responsibility, performance and experience of the individual and the overall performance of the Consolidated Entity. A senior Executive's remuneration may also be reviewed on promotion.

1(c) Performance-linked remuneration

Performance-linked remuneration includes both short-term and long-term incentives and is designed to reward key management personnel for meeting or exceeding financial, strategic and personal targets. The short-term incentives (**STI**) are "at risk" bonuses provided in the form of cash and shares, while the long-term incentives (**LTI**) are provided as equity-based incentives in the Company under the terms of the Share Appreciation Rights (**SAR**) (see Note 21).

Options over ordinary shares in the Company which were granted in prior financial years under the terms of the Executive Share Option Scheme (**ESOS**) (see Note 21) remain outstanding, however given the exercise price of such options relative to the current price of ordinary shares in the Company, they are no longer considered to provide any meaningful LTI. The subscription of ordinary shares in the Company funded by a limited recourse loan for Jeremy Philips is no longer considered to provide an LTI as the Executive is no longer employed by the Company.

Short-term incentives

There are a number of short-term incentive plans available to employees, senior Executives and the CEO.

The short-term incentives for the chief executive officers and senior employees of individual subsidiaries are typically linked to the financial performance of their relevant subsidiary, relative to that subsidiary's budgets or financial performance in the prior financial year. The incentives are typically payable in cash at the end of the financial year.

Short-term incentives for other senior Executives in the current financial year are in accordance with the terms of their individual service agreements and include capped bonuses payable at the discretion of the Remuneration and Nomination Committee based on the achievement of financial and non-financial measures, including achievement of strategic objectives set by the Board. In the current financial year, these objectives included completion of certain operational restructuring targets, capital management activities and recruitment of key senior Executives. The discretionary capped bonuses in the current financial year are detailed on page 20. In the current financial year, no bonuses based on financial metrics were achieved.

The short-term incentive for the CEO is a maximum short-term incentive payment of \$200,000 per annum subject to achievement of targets for annual growth in earnings per share (EPS) of the Company and non-financial performance of the Group.

The metrics for the short-term incentive for Jeremy Philips were detailed in the 30 June 2011 annual financial report.

The Company is currently reviewing the short-term incentives for chief executive officers of individual subsidiaries.

Long-term incentives

Long-term incentives are designed to link Executive remuneration with long-term shareholder value and the performance of the Consolidated Entity. During the financial year, LTI were provided as equity-based

incentives in the Company under the terms of the Share Appreciation Rights plan (**SAR**) (see Note 21).

The Company also has an Executive Share Option Scheme (**ESOS**), Senior Executive Option Plan (**SEOP**) (see Note 21) and the subscription of ordinary shares in the Company funded by a limited recourse loan for Jeremy Philips (**Jeremy Philips LTIP**) (see Note 21). However these plans are no longer active. Options over ordinary shares in the Company which were granted in prior financial years under the terms of the ESOS (see Note 21) remain outstanding. However given the exercise price of such options relative to the current price of ordinary shares in the Company, they are no longer considered to provide any meaningful LTI.

In a limited number of cases, LTI is provided to chief executive officers and senior employees of individual subsidiaries via schemes which allow those individuals to earn a minority equity interest in the relevant subsidiary over a period of time based on the financial performance of the subsidiary.

Current long-term incentive plans

Share Appreciation Rights (SAR)

During the year ended 30 June 2011, the Company introduced a Share Appreciation Rights plan, designed to incentivise the Company's senior Executives and other senior management of the Consolidated Entity.

The plan allows for the Board to determine who is entitled to participate in the SAR and may grant rights accordingly. Eneo's Board may determine whether or not the grant of rights is conditional on the achievement of performance hurdles, and if so the nature of those hurdles.

The exercise of each right will entitle the rights holder to receive a fraction of an ordinary share based on a conversion formula of $(A - B)/A$, where A is the volume weighted average price (**VWAP**) for the Company's shares for the 20 business days prior to the vesting date of the rights and B is the VWAP for the Company's shares for the 20 business days before the rights were granted.

A total of 5,292,208 rights were issued on 18 August 2011; however the service period for these rights commenced on 31 May 2011 when the employees accepted the invitations to be granted rights. The VWAP for the 20 days prior to the grant date (**B**) was 63 cents.

The rights issued on 18 August 2011 vest as follows:

- 20 days after the release of the Consolidated Entity's financial report for year ended 30 June 2012 – 2/9ths;
- 20 days after the release of the Consolidated Entity's financial report for year ended 30 June 2013 – 3/9ths; and
- 20 days after the release of the Consolidated Entity's financial report for year ended 30 June 2014 – 4/9ths.

The Board may exercise discretion on early vesting of rights in the event of a change of control of the Consolidated Entity.

Directors' Report

Rights expire at five business days after the relevant vesting date or the termination of the individual's employment.

On 16 January 2012 the Company issued 888,889 SAR to the Chief Executive Officer, Matthew Melhuish, which are subject to shareholder approval. The rights issued vest as follows:

- 20 days after the release of the Consolidated Entity's financial report for year ended 30 June 2013 – 2/9ths;
- 20 days after the release of the Consolidated Entity's financial report for year ended 30 June 2014 – 3/9ths; and
- 20 days after the release of the Consolidated Entity's financial report for year ended 30 June 2015 – 4/9ths.

As at 30 June 2012 there were 4,725,428 SAR outstanding.

Prior long-term incentive plans

Jeremy Philips Long-term Incentive Plan (Jeremy Philips LTIP)

In April 2010, the Company granted Jeremy Philips a limited recourse loan to subscribe for 500,000 ordinary shares in the Company. The ordinary shares were issued at \$20.34, with the limited recourse loan being provided for the issue price. The ordinary shares issued under the LTIP are subject to vesting and escrow conditions.

In accordance with the terms of his service agreement, and in connection with the equity raising completed on 29 September 2010, Jeremy Philips subscribed for a further 3,608,134 shares funded by the limited recourse loan provided by the Company. The additional ordinary shares under the LTIP were issued at \$1.80, with the further limited recourse loan being provided for the issue price.

Jeremy Philips is not able to deal with any ordinary shares issued under the LTIP until they vest as follows (or immediately on change of control of the Consolidated Entity):

- 912,919 at 30 June 2012;
- 1,369,378 at 30 June 2013; and
- 1,825,837 at 30 June 2014.

Any dividends received from the ordinary shares will be offset against interest payable on the limited recourse loan. Repayment of the loan will be made on the earlier of the sale of the relevant shares or 12 months after vesting. Jeremy Philips may elect to forfeit the shares to which any loan repayment relates, in lieu of making a repayment which is due.

On 12 January 2012, Jeremy Philips forfeited 111,111 shares which would have vested on 30 June 2012 in accordance with his termination provisions. The remaining shares under the LTIP remain potentially exercisable subject to the continuing terms of the arrangement until the expiration of his post-employment restrictions and obligations on 13 June 2013 and only on occurrence of a change of control event.

As at 30 June 2012, there were 3,997,023 shares under this LTIP.

Executive Share Option Scheme (ESOS)

The Company has an Executive Share Option Scheme (ESOS). However no options have been issued under the ESOS in the current financial year nor are they expected to be issued under the ESOS in the future.

The plan allows for the Board to determine who is entitled to participate in the ESOS and to grant options accordingly. The exercise of an option will entitle the option holder to subscribe for one share. All options were granted at an exercise price, being the average of the daily VWAP of the Company shares on each of the 30 business days prior to the issue date. The average exercise price of these options is \$50.03. All options expire on the earlier of their expiry date or termination of the individual's employment. The options issued on or after 1 April 2004 under the ESOS, are exercisable by the option holder as follows:

- after two years from issue date – 33⅓%;
- after three years from issue date – 66⅔%; and
- after four years from issue date, the option holder is entitled to exercise all options until expiry date (being five years after the issue date).

No options were granted under the ESOS during the financial year; however as at 30 June 2012, 55,092 ESOS options over unissued shares remain outstanding. Due to the average exercise price of these options being significantly higher than the current share price of the Company, these options are no longer considered to provide any meaningful LTI.

Refer to section 2(b) of the Directors' Report for further information regarding the SAR and ESOS.

1(d) Service contracts

It is the Consolidated Entity's policy that service contracts for key management personnel are in force either for a fixed period, with an extension period negotiable after completion of the initial term, or on a rolling basis. The agreements are capable of termination, acknowledging appropriate notice periods, and the Consolidated Entity retains the right to terminate the contract immediately for contractual breach by the executive or by making payment in lieu of notice.

The service agreements outline the components of remuneration paid to the key management personnel. Remuneration levels are reviewed annually by the Remuneration and Nomination Committee or in accordance with the terms of the service agreements.

Summary terms for current service agreements for key management personnel:

Key management personnel	Duration of contract	Notice period on termination by Consolidated Entity	Notice period on resignation by key management personnel	Termination payment on termination by Consolidated Entity (i) (ii) (iii) (iv)	Termination payment on resignation by key management personnel (i) (ii) (iv)
CEO	30 June 2015	6 months	6 months	6 months base salary	6 months base salary
Group Finance Director	Rolling	6 months	3 months	6 months base salary	3 months base salary

(i) In addition to termination payments, key management personnel are also entitled to receive, on termination of their employment, their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

(ii) Includes any payment in lieu of notice.

(iii) No termination payment is due if termination is for serious misconduct.

(iv) CEO is entitled to a pro-rata STI payment on termination, except for termination for serious misconduct.

1(e) Non-Executive Directors

The Company's Constitution provides that the Non-Executive Directors are each entitled to be paid such remuneration from the Company as the Directors decide for their services as Director, but the total amount provided to all Non-Executive Directors for their services must not exceed in aggregate in any financial year the amount fixed by the Company in a general meeting. This amount has been fixed by the Company at \$750,000 for the financial year ended 30 June 2012.

The remuneration of Non-Executive Directors must not include a commission on, or percentage of, profits or operating revenue. Directors may also be reimbursed for travelling and other expenses incurred in attending to the Company's affairs. Directors may be paid such additional or special remuneration as the Directors decide is appropriate where a Director performs extra services or makes special exertions for the benefit of the Company.

1(f) Consequences of performance on shareholder wealth

The Remuneration and Nomination Committee has given consideration to the Consolidated Entity's performance and consequences on shareholder wealth in the current financial year and the four previous financial years. Given the significant capital and operational restructure which took place during the current and prior financial years, including the impact of significant costs in the years ended 30 June 2012, 30 June 2011 and 30 June 2010 and the change in the key management personnel of the Consolidated Entity, the financial performance, share price and dividends of the last four financial years have been given less weight in the setting of appropriate remuneration structures which align remuneration of the new key management personnel with future shareholder wealth.

The Remuneration and Nomination Committee considers the achievement of financial targets as well as non-financial measures in setting the short-term incentives. In the financial year to 30 June 2012, an emphasis has been placed by the Remuneration and Nomination Committee on the achievement of stated strategic objectives associated with the capital, operational and management restructure of the Company when determining short-term remuneration. Longer-term profitability, changes in share price and return of capital are factors the Remuneration and Nomination Committee takes into account in assessing the LTI.

The Remuneration and Nomination Committee has reviewed both the financial performance in the current financial year as well as the achievement of stated strategic objectives including the capital, operational and management restructure which took place during the financial year. The Remuneration and Nomination Committee believes the complex nature of the strategic achievements have been reflected in the short-term remuneration of the key management personnel and that these strategic achievements are critical for the achievement of future shareholder wealth. The Remuneration and Nomination Committee also believes that the LTI in place align the key management personnel with the achievement of shareholder wealth by aligning remuneration with future share price performance.

Directors' Report

2(a) Directors' and Executive officers' cash and post-employment and other long-term remuneration

Details of the nature and amount of each element of the remuneration of each Director of the Company and each of the Executives of the Company and Consolidated Entity, who are key management personnel are shown in the table below:

		Salary and fees \$	Cash bonus \$ ⁽ⁱ⁾	Non-cash benefits \$	Post- employment Super/ Pension contributions \$	Long Service Leave \$	Other compensation Termination benefits \$	Total Cash and other compensation excluding equity-based remuneration \$
Directors								
Non-Executive								
John Porter ^(vi)	2012	31,597	—	—	—	—	—	31,597
	2011	—	—	—	—	—	—	—
Susan McIntosh	2012	125,000	—	—	11,250	—	—	136,250
	2011	125,000	—	—	11,250	—	—	136,250
Brian Bickmore	2012	244,167	—	—	15,241	—	—	259,408
	2011	275,000	—	—	15,199	—	—	290,199
Roger Amos	2012	135,000	—	—	17,600	—	—	152,600
	2011	80,801	—	—	7,272	—	—	88,073
Max Johnston	2012	125,000	—	—	11,250	—	—	136,250
	2011	21,795	—	—	1,964	—	—	23,759
Executive								
Matthew Melhuish, Chief Executive Officer ^(vii)	2012	754,822	100,000	12,523	15,775	17,877	—	900,997
	2011	666,250	50,000	8,986	12,666	135,715	—	873,617
Stephen Gatfield ^(vi)	2012	97,405	—	—	10,823	—	—	108,228
	2011	—	—	—	—	—	—	—
Relevant Consolidated Entity Executives								
Jeremy Philips, Chief Executive Officer ^(viii)	2012	2,080,979	189,617	5,250	49,875	—	3,275,541	5,601,262
	2011	1,304,216	1,092,860	10,025	50,000	2,082	—	2,459,183
Clare Battellino, Chief Financial Officer ^(ix)	2012	392,270	50,000	—	15,776	—	475,000	933,046
	2011	461,851	45,000	—	15,199	2,810	—	524,860
Nigel Long, Head of International Agencies Division ^(ix)	2012	262,030	2,167	1,728	27,154	—	—	293,079
	2011	429,271	37,532	7,303	93,051	—	—	567,157
Craig Hart, Head of Field Marketing Division ^(x)	2012	238,064	290,000	—	6,573	—	—	534,637
	2011	207,116	50,000	—	5,066	152	—	262,334
Jon Wilkins, Head of Strategy & Development ^(xi)	2012	372,123	—	4,163	15,495	—	—	391,781
	2011	749,928	14,785	4,831	32,922	—	—	802,466
Brendan York, Group Finance Director ^(xii)	2012	37,559	25,000	—	2,629	292	—	65,480
	2011	—	—	—	—	—	—	—

Refer to page 22 for footnote details.

2(b) Directors' and Executive officers' equity-based remuneration

Details of the nature and amount of each element of the remuneration of each Director of the Company and each of the Executives of the Company and Consolidated Entity, who are key management personnel are shown in the table below:

Share-based payments – Accounting value at Grant Date									
		Value of options under CEO LTIP (i) (ii)	Value of options under ESOS (ii)	Value of options under SEOP (ii)	Value of rights under SAR (iv)	Value of shares \$	Total Equity-based remuneration \$	Proportion of total remuneration performance related (v) %	Value of options proportion of total remuneration (v) %
Directors									
Non-Executive									
John Porter ^(vi)	2012	–	–	–	–	–	–	–	–
	2011	–	–	–	–	–	–	–	–
Susan McIntosh	2012	–	–	–	–	–	–	–	–
	2011	–	–	–	–	–	–	–	–
Brian Bickmore	2012	–	–	–	–	–	–	–	–
	2011	–	–	–	–	–	–	–	–
Roger Amos	2012	–	–	–	–	–	–	–	–
	2011	–	–	–	–	–	–	–	–
Max Johnston	2012	–	–	–	–	–	–	–	–
	2011	–	–	–	–	–	–	–	–
Executive									
Matthew Melhuish, Director & CEO ^(vii)	2012	–	–	–	95,700	–	95,700	19.63	9.60
	2011	–	–	–	4,562	–	4,562	6.21	0.52
Stephen Gatfield ^(vi)	2012	–	–	–	8,794	–	8,794	7.51	7.51
	2011	–	–	–	–	–	–	–	–
Relevant Consolidated Entity Executives									
Jeremy Philips, Chief Executive Officer ^(viii)	2012	1,510,594	–	–	–	–	1,510,594	23.91	21.24
	2011	1,506,466	–	–	–	–	1,506,466	65.55	37.99
Clare Battellino, Chief Financial Officer ^(ix)	2012	–	–	–	–	–	–	5.36	–
	2011	–	41,735	95,000	4,562	–	141,297	27.97	21.21
Nigel Long, Head of International Agencies Division ^(ix)	2012	–	–	–	–	–	–	0.74	–
	2011	–	20,636	2,464	4,562	–	27,662	10.96	4.65
Craig Hart, Head of Field Marketing Division ^(x)	2012	–	–	–	–	–	–	54.24	–
	2011	–	–	–	4,562	–	4,562	20.44	1.71
Jon Wilkins, Head of Strategy & Development ^(xi)	2012	–	4,296	–	23,796	–	29,092	6.69	6.69
	2011	–	15,224	–	4,562	–	19,786	4.20	2.41
Brendan York, Group Finance Director ^(xii)	2012	–	284	–	1,315	–	1,599	39.65	2.38
	2011	–	–	–	–	–	–	–	–

Refer to page 22 for footnote details.

Directors' Report

- (i) The short-term incentive bonus is for performance during the 30 June 2012 financial year using the criteria set out on page 17. The table above includes in the expense incurred during the financial year for the bonuses awarded. Refer to the table on page 23 for the bonuses awarded.
- (ii) The fair values of the ESOS options are calculated at the date of grant using either the Black Scholes model or the Binomial option pricing model. The fair values of the SEOP options are calculated at the date of grant using a Monte Carlo Simulation Model. The fair values of the ECOS options are calculated at the date of the grant using either the Black Scholes model or the Binomial option pricing model. The fair value is allocated to each reporting period on a straight-line basis over the period from grant date to vesting date. The value disclosed above is the portion of the fair value of the options allocated to this reporting period. In valuing options, market conditions have been taken into account. The factors and assumptions used in determining the fair value of options on grant date are discussed in Note 21 Employee benefits. The options issued under the ESOS have an average exercise price of \$50.03 and are therefore considered to have no significant LTI at balance sheet date. The performance hurdles for options granted under SEOP have not been met and therefore no options have been issued under the SEOP.
- (iii) The ordinary shares under the Jeremy Philips LTIP funded through a limited recourse loan are accounted for as an in-substance option under AASB 2 Share-based Payments. The fair values of the in-substance options issued are calculated at the date of the grant using the Binomial Tree option pricing model. The fair value is allocated to each reporting period on a straight-line basis over the period from grant date to vesting date.
- (iv) Share Appreciation Rights are calculated at the date of grant using either the Black Scholes model or the Binomial option pricing model. The fair value is allocated to each reporting period on a straight line basis over the period from the grant date (or service commencement date) to vesting date. The rights were granted on 18 August 2011 however, as the service commenced on 31 May 2011, the amounts included above for the prior year represent the fair value allocated from between the service commencement date and the balance sheet date.
- (v) Percentages are based on total remuneration, including equity, cash, post-employment and other long-term remuneration.
- (vi) John Porter and Stephen Gatfield were appointed as Directors on 24 April 2012.
- (vii) Matthew Melhuish was appointed Chief Executive Officer and Director on 16 January 2012. The remuneration disclosed represents both in capacity as CEO and Head of Australian Agencies, a position held between 1 July 2011 and 15 January 2012.
- (viii) Jeremy Philips resigned as Chief Executive Officer on 12 December 2011.
- (ix) Clare Battellino and Nigel Long ceased to be employees and key management personnel effective; 30 April 2012.
- (x) Craig Hart ceased to be an employee and key management personnel effective; 30 November 2011.
- (xi) Jon Wilkins ceased to be key management personnel, effective; 31 December 2011.
- (xii) Brendan York became key management personnel, effective 1 May 2012.

2(c) Details of performance-related remuneration

Details of the Company's policy in relation to the proportion of remuneration that is performance-based are discussed on page 17.

2(d) Analysis of bonuses included in remuneration

Details of the vesting profile of the short-term incentive bonuses awarded as remuneration to each executive of the Company and the Consolidated Entity who was a key management personnel, are discussed below.

	Short-term incentive bonus ⁽ⁱ⁾	
	Included in remuneration \$	% vested in year
Company Executives		
Matthew Melhuish	100,000	100
Brendan York	25,000	100
Jeremy Philips ⁽ⁱⁱ⁾	189,617	100
Clare Battellino	50,000	100
Craig Hart	290,000	100
Relevant Consolidated Entity Executives		
Nigel Long	2,167	100

(i) Amounts included in remuneration for the financial year represent the amount that vested in the financial year based on the achievement of satisfaction of specified performance criteria as discussed in section 1(c) Short-term incentives and are approved following the completion of the reporting period audit.

(ii) Jeremy Philips, bonus is a pro-rata STI in accordance with his service agreement. Jeremy Philips completed his notice period on 12 June 2012.

Other key management personnel did not receive an STI. The calculation of STI for certain key management personnel based on financial metrics resulted in a nil bonus; however they received discretionary awards. No bonuses were forfeited during the year.

2(e) Options granted during 2012 as remuneration to Directors and senior Executives**Share Appreciation Rights (SAR)**

Share Appreciation Rights were issued to senior employees of the Consolidated Entity on 18 August 2011. The conversion formula for the rights will be based on the VWAP for the Company's shares for the 20 business days prior to the grant date, being 63 cents.

Share Appreciation Rights were issued to the Chief Executive Officer on 12 January 2012, subject to shareholder approval. The conversion formula for the rights will be based on the VWAP for the Company's shares for the 20 business days prior to the grant date at shareholder approval, at a price to be determined.

Directors' Report

3(a) Options over equity instruments granted as remuneration

Details on options over ordinary shares in the Company that were granted as compensation to each key management personnel during the reporting period and details of options that vested during the reporting period are as follows:

	Type of option granted during 2012	Number of options granted during 2012 ^(a)	Grant date	Fair value per option at grant date \$	Exercise price per option \$	Expiry date	Number of options vested during 2012
Executives							
Clare Battellino ⁽ⁱ⁾	SAR	333,334	18 Aug 2011	0.252 – 0.378	0.63	30 Sept 2014	–
Nigel Long ⁽ⁱ⁾	SAR	333,334	18 Aug 2011	0.252 – 0.378	0.63	30 Sept 2014	–
Matthew Melhuish ⁽ⁱ⁾	SAR	333,334	18 Aug 2011	0.252 – 0.378	0.63	30 Sept 2014	–
Craig Hart ⁽ⁱ⁾	SAR	333,334	18 Aug 2011	0.252 – 0.378	0.63	30 Sept 2014	–
Jon Wilkins ⁽ⁱ⁾	SAR	333,334	18 Aug 2011	0.252 – 0.378	0.63	30 Sept 2014	–
Stephen Gatfield ⁽ⁱ⁾	SAR	333,334	18 Aug 2011	0.252 – 0.378	0.63	30 Sept 2014	–
Brendan York ⁽ⁱ⁾	SAR	55,556	18 Aug 2011	0.252 – 0.378	0.63	30 Sept 2014	–
Matthew Melhuish ⁽ⁱⁱ⁾	SAR	888,889	16 Jan 2012	0.252 – 0.378	n/a	30 Sept 2015	–

- (i) Grant is in relation to SAR provided to senior employees of the Consolidated Entity which were issued on 18 August 2011. The last expiry date of the rights is 20 business days after the release of the Consolidated Entity's financial report for the year ended 30 June 2014, which is estimated to be around 30 September 2014.
- (ii) Grant is in relation SAR provided to CEO which were issued on 16 January 2012, subject to shareholder approval. The last expiry date of the rights is 20 business days after the release of the Consolidated Entity's financial report for the year ended 30 June 2015, which is estimated to be around 30 September 2015. The value per option is estimated as the grant has not been approved by shareholders.
- (iii) All options refer to options over ordinary shares of Enero Group Limited, which are exercisable on a one-for-one basis under the SAR plans.
- (iv) The number of option in the table above has been restated for the one for eighteen share consolidation. Refer Note 24 for further details in respect of the share consolidation.

3(b) Analysis of share-based payments granted as remuneration

Details of the vesting profile of the options granted as remuneration to each Director of the Company and each of the key management personnel, who include the five most highly remunerated Executives, are detailed below:

Options Granted	Number of options granted	Type of option granted	Grant date	% vested in year	% forfeited in year	% Vesting condition not met	% remaining to vest	Vesting date ^(a)
Directors								
Matthew Melhuish	333,334	SAR	18 Aug 2011	–	–	–	100	30 Sep 2012 30 Sep 2013 30 Sep 2014
	888,889	SAR	16 Jan 2012	–	–	–	100	30 Sep 2013 30 Sep 2014 30 Sep 2015
Stephen Gatfield	333,334	SAR	18 Aug 2011	–	–	–	100	30 Sep 2012 30 Sep 2013 30 Sep 2014

Company and Consolidated Entity	Number of options granted	Type of option granted	Grant date	% vested in year	% forfeited in year	% vesting condition not met ^(a)	% remaining to vest	Vesting date ^(a)
Executives								
Jeremy Philips	500,000 ⁽ⁱⁱ⁾	CEO LTIP	20 Apr 2010	–	22½	–	77½	30 Jun 2012 30 Jun 2013 30 Jun 2014
	3,608,134 ⁽ⁱⁱ⁾	CEO LTIP	17 Sep 2010	22½	–	–	77½	30 Jun 2012 30 Jun 2013 30 Jun 2014
Clare Battellino	5,556	ESOS	27 Aug 2007	33½	–	–	–	27 Aug 2009 27 Aug 2010 27 Aug 2011
	11,111 ⁽ⁱⁱⁱ⁾	ESOS	1 Oct 2008	33½	33½	–	–	1 Oct 2010 1 Oct 2011 1 Oct 2012
	13,889 ⁽ⁱⁱⁱ⁾	ESOS	11 Feb 2009	33½	33½	–	–	11 Feb 2011 11 Feb 2012 11 Feb 2013

Company and Consolidated Entity	Number of options granted	Type of option granted	Grant date	% vested in year	% forfeited in year	% vesting condition not met ^(vi)	% remaining to vest	Vesting date [®]
	33,333	SEOP	1 Apr 2008	—	—	66⅔	—	1 Jul 2010
	333,334 ⁽ⁱⁱⁱ⁾	SAR	18 Aug 2011	—	100%	—	—	1 Jul 2011
								30 Sep 2012
								30 Sep 2013
								30 Sep 2014

Company and Consolidated Entity	Number of options granted	Type of option granted	Grant date	% vested in year	% forfeited in year	% vesting condition not met ^(vi)	% remaining to vest	Vesting date [®]
Executives (continued)								
Nigel Long	3,056	ESOS	1 Apr 2008	33⅓	—	—	—	1 Apr 2010
								1 Apr 2011
								1 Apr 2012
	5,278	ESOS	5 Feb 2008	33⅓	—	—	—	28 Feb 2010
								28 Feb 2011
								28 Feb 2012
	25,000	SEOP	1 Apr 2008	—	—	88⅔	—	1 Jul 2010
								1 Jul 2011
	5,556 ^(iv)	ESOS	1 Oct 2008	33⅓	33⅓	—	—	1 Oct 2010
								1 Oct 2011
								1 Oct 2012
	333,334	SAR	18 Aug 2011	—	—	—	100%	30 Sep 2012
								30 Sep 2013
								30 Sep 2014
Craig Hart	333,334 ^(v)	SAR	18 Aug 2011	—	100%	—	—	30 Sep 2012
								30 Sep 2013
								30 Sep 2014
Jon Wilkins	8,333	ESOS	30 Jun 2009	33⅓	—	—	33⅓	30 Jun 2011
								30 Jun 2012
								30 Jun 2013
	333,334	SAR	18 Aug 2011	—	—	—	100%	30 Sep 2012
								30 Sep 2013
								30 Sep 2014
Brendan York	1,111	ESOS	1 Jul 2007	33⅓	—	—	—	1 Jul 2009
								1 Jul 2010
								1 Jul 2011
	2,222	ESOS	1 Oct 2008	33⅓	—	—	33⅓	1 Oct 2010
								1 Oct 2011
								1 Oct 2012
	55,556	SAR	18 Aug 2011	—	—	—	100%	30 Sep 2012
								30 Sep 2013
								30 Sep 2014

- (i) The options granted vest over various periods, based on the terms of the option agreements. The date reflected in the table above represents all of the vesting dates for each tranche of options. The vesting date of the SAR is 20 business days after the release of the Consolidated Entity's preliminary financial report for the relevant financial year. This is estimated to be around 30 September each year.
- (ii) Jeremy Philips ceased employment during the year but as per his service agreement the CEO LTIP is still exercisable (subject to compliance with post-employment restrictions) during the contractual notice period and the period of the post-employment restrictions, but only on occurrence of a change of control event.
- (iii) Clare Battellino ceased employment during the year. Therefore these options were forfeited, as the service condition was not met.
- (iv) Nigel Long ceased employment during the year. Therefore these options were forfeited (with exception for SAR), as the service condition was not met.
- (v) Craig Hart ceased employment during the year. Therefore these options were forfeited, as the service condition was not met.
- (vi) The percentage vesting condition not met represents the reduction from the maximum number of options available to vest due to performance criteria not being met.
- (vii) The number of option in the table above has been restated for the one for eighteen share consolidation. Refer Note 24 for further details in respect of the share consolidation.

Directors' Report

3(c) Analysis of movements in options

The movement during the reporting period by value, of options over ordinary shares in the Company held by each Company Director and each of the key management personnel, is detailed below.

		Value of Options		
	Granted in year \$ ⁽ⁱ⁾	Type of option granted in year	Exercised in year \$	Forfeited in year \$
Consolidated Entity Executives				
Matthew Melhuish	405,778	SAR ⁽ⁱⁱ⁾	—	—
Stephen Gatfield	110,667	SAR ⁽ⁱⁱ⁾	—	—
Clare Battellino	110,667	SAR ⁽ⁱⁱ⁾	—	—
Nigel Long	110,667	SAR ⁽ⁱⁱ⁾	—	—
Craig Hart	110,667	SAR ⁽ⁱⁱ⁾	—	—
Jon Wilkins	110,667	SAR ⁽ⁱⁱ⁾	—	—
Brendan York	18,444	SAR ⁽ⁱⁱ⁾	—	—

- (i) The value of options granted in the year is the fair value of the options calculated at grant date using a range of valuation models including the Black Scholes, Binomial and Monte Carlo Simulation. For further details on the valuation methodologies of these valuations, see Note 21 Employee benefits. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period (i.e. on a straight-line basis).
- (ii) Share Appreciation Rights are calculated at the date of grant using either the Black Scholes model or Binomial option pricing model. The fair value is allocated to each reporting period on a straight-line basis over the period from the grant date (or service commencement date) to the vesting date. The rights were granted on 18 August 2011. Matthew Melhuish was granted, subject to shareholder approval additional SAR on 16 January 2012. As these SAR for the CEO have not received shareholder approval, the value has been estimated and that value was used to calculate the dollar value between service commencement date and the balance sheet date.

3(d) Modification of terms of equity-settled share-based payment transactions

No terms of equity-settled share-based payment transactions (including options and rights granted as compensation to key management personnel) have been altered or modified by the issuing entity during the reporting period or the prior period.

4(a) Services from remuneration consultants

The Remuneration and Nomination Committee engaged Mercer Australia (Mercer) as a remuneration consultant to the Board to review the amount and elements of the remuneration provided to individual subsidiary CEOs and benchmarking information thereto.

Mercer was paid \$25,000 for the remuneration benchmarking services.

The engagement of Mercer was based on a documented set of protocols that would be followed by Mercer and members of the remuneration and nomination committee in the way in which remuneration benchmarking would be presented to the Board.

The engagement included the prohibition of Mercer providing advice or recommendations to the individual subsidiary CEOs. These arrangements were implemented to ensure that Mercer would be able to carry out its work free from undue influence.

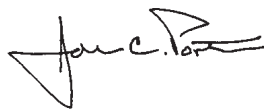
The Board is satisfied that the remuneration benchmarking information provided by Mercer is free from undue influence from individual subsidiary CEOs.

Lead Auditor's independence declaration

The lead auditor's independence declaration is set out on page 90, and forms part of the Directors' Report for the year ended 30 June 2012.

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

Dated at Sydney this 3rd day of September 2012.



John Porter

Chairman

Consolidated income statement for the year ended 30 June 2012

In thousands of AUD	Note	2012	2011
Continuing operations			
Gross revenue	3	334,554	399,081
Directly attributable costs of sales	3	(160,432)	(184,438)
Net revenue	3	174,122	214,643
Other income		365	291
Employee expenses		(131,161)	(140,852)
Occupancy costs		(10,950)	(13,637)
Depreciation and amortisation expense		(6,594)	(10,955)
Insurance expense		(787)	(918)
Consultancy fees		(10,569)	(10,344)
Equipment hire charges		(537)	(552)
Travel expenses		(3,940)	(3,982)
Communication expenses		(3,123)	(4,322)
Other operating expenses		(9,446)	(11,506)
Acquisition transaction cost		—	(42)
Fair value adjustment to deferred consideration liability		50,760	29,739
Loss on sale of subsidiaries	29	(501)	(6,803)
Impairment of intangible assets	17	(133,357)	(87,481)
Present value interest expense		(4,292)	(9,106)
Other finance costs		(4,563)	(15,193)
Total finance costs	4	(8,855)	(24,299)
Loss before income tax		(94,573)	(71,020)
Income tax expense	6	(6,603)	(2,601)
Loss for the period from continuing operations		(101,176)	(73,621)
Discontinued operations			
Profit/(Loss) before tax	7	(44,399)	20,108
Income tax expense	6	(1,710)	(6,225)
Income tax benefit on loss on sale of discontinued operations	7	4,659	—
Profit/(Loss) from discontinued operation (net of income tax)	7	(41,450)	13,883
Loss for the year		(142,626)	(59,738)
Attributable to:			
Equity holders of the parent		(143,340)	(59,711)
Non-controlling interest		714	(27)
		(142,626)	(59,738)
Basic earnings per share (AUD cents)	8	(181.6)	(89.6)
Diluted earnings per share (AUD cents)	8	(181.6)	(89.6)
Basic earnings per share (AUD cents) – continuing operations	8	(129.1)	(110.5)
Diluted earnings per share (AUD cents) – continuing operations	8	(129.1)	(110.5)

The notes on pages 32 to 86 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
for the year ended 30 June 2012

In thousands of AUD	Note	2012	2011
Loss for the period		(142,626)	(59,738)
Other comprehensive income			
Cash flow hedge gain		866	2,084
Foreign currency translation differences for foreign operations		1,744	(16,728)
Income tax on items of other comprehensive income	6	(260)	(625)
Other comprehensive income for the period net of tax		2,350	(15,269)
Total comprehensive income for the period		(140,276)	(75,007)
Attributable to:			
Equity holders of the parent		(141,016)	(74,871)
Non-controlling interest		740	(136)
		(140,276)	(75,007)

The notes on pages 32 to 86 are an integral part of these consolidated financial statements.

Consolidated statement of changes of equity as at 30 June 2012

In thousands of AUD	Note	Attributable to owners of the Company					Total	Non-controlling interest	Total equity
		Share capital	Accumulated losses	Option reserve	Cash flow hedge reserve	Foreign currency translation reserve			
Opening balance at 1 July 2010		369,268	(91,847)	11,809	(2,065)	(21,617)	265,548	645	266,193
Loss for the period		—	(59,711)	—	—	—	(59,711)	(27)	(59,738)
Other comprehensive income for the period net of tax		—	—	—	1,459	(16,619)	(15,160)	(109)	(15,269)
Total comprehensive income for the period		—	(59,711)	—	1,459	(16,619)	(74,871)	(136)	(75,007)
Transactions with owners recorded directly in equity:									
Shares issued	24	102,529	—	—	—	—	102,529	—	102,529
Shares issued as part of business combinations	24	12,436	—	—	—	—	12,436	—	12,436
Tax effect of share issue costs	24	2,978	—	—	—	—	2,978	—	2,978
Share issue costs	24	(9,927)	—	—	—	—	(9,927)	—	(9,927)
Share options expense		—	—	(770)	—	—	(770)	—	(770)
Closing balance at 30 June 2011		477,284	(151,558)	11,039	(606)	(38,236)	297,923	509	298,432
Opening balance at 1 July 2011		477,284	(151,558)	11,039	(606)	(38,236)	297,923	509	298,432
Loss for the period		—	(143,340)	—	—	—	(143,340)	714	(142,626)
Other comprehensive income for the period net of tax		—	—	—	606	1,718	2,324	26	2,350
Total comprehensive income for the period		—	(143,340)	—	606	1,718	(141,016)	740	(140,276)
Transactions with owners recorded directly in equity:									
Shares issued	24	34	—	—	—	—	34	—	34
Shares issued as part of business combinations	24	12,151	—	—	—	—	12,151	—	12,151
Tax effect of share issue costs	24	33	—	—	—	—	33	—	33
Share issue costs	24	(111)	—	—	—	—	(111)	—	(111)
Dividends paid to equity holders		—	—	—	—	—	—	(363)	(363)
Share options expense		—	—	1,841	—	—	1,841	—	1,841
Closing balance at 30 June 2012		489,391	(294,898)	12,880	—	(36,518)	170,855	(886)	171,741

The notes on pages 32 to 86 are an integral part of these consolidated financial statements.

Consolidated statement of financial position as at 30 June 2012

In thousands of AUD	Note	2012	2011
Assets			
Cash and cash equivalents	9	21,514	18,564
Trade and other receivables	10	39,300	72,144
Other assets	11	10,351	10,051
Income tax receivable	13	803	7,014
Assets classified as held for sale	14	18,235	—
Total current assets		90,203	107,773
Receivables	10	457	376
Other financial assets	12	—	50
Deferred tax assets	15	3,373	1,950
Plant and equipment	16	6,037	12,199
Other assets	11	905	1,116
Intangible assets	17	141,973	456,738
Total non-current assets		152,745	472,429
Total assets	2	242,948	580,202
Liabilities			
Trade and other payables	18	37,612	57,972
Deferred consideration payables	19	12,989	40,021
Interest-bearing loans and borrowings	20	811	2,042
Employee benefits	21	3,907	7,361
Income tax payable	13	786	2,505
Provisions	23	1,507	2,864
Liabilities classified as held for sale	14	10,438	—
Total current liabilities		68,050	112,765
Trade and other payables	18	42	33
Deferred consideration payables	19	548	49,933
Interest-bearing loans and borrowings	20	643	115,919
Employee benefits	21	844	1,269
Provisions	23	1,080	1,851
Total non-current liabilities		3,157	169,005
Total liabilities	2	71,207	281,770
Net assets		171,741	298,432
Equity			
Issued capital	24	489,391	477,284
Reserves		(23,638)	(27,803)
Accumulated losses		(294,898)	(151,558)
Total equity attributable to equity holders of the parent		170,855	297,923
Non-controlling interest		886	509
Total equity		171,741	298,432

The notes on pages 32 to 86 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows for the year ended 30 June 2012

In thousands of AUD	Note	2012	2011
Cash flows from operating activities			
Cash receipts from customers		483,919	631,557
Cash paid to suppliers and employees		(472,101)	(588,338)
Cash generated from operations		11,818	43,219
Interest received		682	528
Income taxes received/(paid)		805	(3,328)
Interest paid		(4,403)	(14,274)
Net cash from operating activities	30	8,902	26,145
Cash flows from investing activities			
Proceeds from disposal of non-current assets		89	626
Payments of deferred consideration		(20,070)	(42,616)
Disposal of discontinued operation, net of cash	7	146,010	—
Disposal of controlled entities, net of cash	29	(433)	73,171
Acquisition of plant and equipment		(3,098)	(5,015)
Development expenditure	17	(877)	(1,496)
Net cash from investing activities		121,621	24,670
Cash flows from financing activities			
Proceeds from the issue of share capital	24	—	102,454
Transaction costs for the issue of share capital	24	(111)	(9,927)
Proceeds from borrowings		15,145	44,211
Repayment of borrowings		(138,706)	(188,673)
Finance lease payments		(1,638)	(2,542)
Dividends paid to non-controlling interest in controlled entities		(363)	—
Net cash used in financing activities		(125,673)	(54,477)
Net increase/(decrease) in cash and cash equivalents		4,850	(3,662)
Effect of exchange rate fluctuations on cash held		(5)	(536)
Cash classified as held for sale		(1,895)	—
Cash and cash equivalents at 1 July		18,564	22,762
Cash and cash equivalents at 30 June	9	21,514	18,564

The notes on pages 32 to 86 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements
for the year ended 30 June 2012

	Page
1. Significant accounting policies	33
2. Operating segments	43
3. Revenue	46
4. Finance costs	46
5. Auditors' remuneration	46
6. Income tax expense	47
7. Discontinued operations	48
8. Earnings per share	49
9. Cash and cash equivalents	50
10. Trade and other receivables	50
11. Other assets	50
12. Other financial assets	51
13. Current tax assets and liabilities	51
14. Disposal group classified as held for sale	51
15. Deferred tax assets and liabilities	52
16. Plant and equipment	52
17. Intangible assets	54
18. Trade and other payables	58
19. Deferred consideration payables	58
20. Loans and borrowings	59
21. Employee benefits	62
22. Key management personnel and other related party disclosures	68
23. Provisions	71
24. Capital and reserves	72
25. Financial risk management/financial instruments	74
26. Commitments	78
27. Contingencies	78
28. Controlled entities	79
29. Disposals of subsidiaries	82
30. Reconciliation of cash flows from operating activities	84
31. Parent entity disclosures	85
32. Subsequent events	85
33. Deed of Cross Guarantee	85

1. Significant accounting policies

Enero Group Limited (formerly Photon Group Limited) (**the Company**) is a Company domiciled in Australia. The address of the Company's registered office is Level 3, 1 Buckingham Street, Surry Hills, NSW 2010. The consolidated financial statements of the Company as at and for the year ended 30 June 2012 comprises the Company and its subsidiaries (together referred to as the "Consolidated Entity") and the Consolidated Entity's interest in associates.

The financial statements for the year ended 30 June 2012 were authorised for issue in accordance with a resolution of the Directors on 3 September 2012.

(a) Statement of compliance

The consolidated financial statements are a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs") (including Australian Interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*. The consolidated financial statements comply with International Financial Reporting Standards (**IFRS**) and interpretations adopted by the International Accounting Standards Board (**IASB**).

(b) Basis of preparation

(i) Basis of measurement

The financial statements are prepared on the historical cost basis except for the items as described in Note 1(t).

(ii) Going concern

Notwithstanding the net loss after tax during the year, the consolidated financial statements have been prepared on a going concern basis which assumes the Consolidated Entity will continue its operations and be able to meet its obligations as and when they become due and payable. This assumption is based on an analysis of the Consolidated Entity's ability to meet its future cash flow objectives using its projected cash flows from operations, existing cash reserves held on the balance sheet date, cash received from the sale of BWM and capacity under its debt facilities.

During the current financial year, the Consolidated Entity completed a restructuring program which has streamlined and sold a number of operating businesses and used the proceeds of \$146,500,000 sale of the Field Marketing division to repay borrowings. At the date of this report, the Consolidated Entity had \$10,000,000 of debt facilities in place which are due for refinancing on 31 March 2013, of which all remains as unused available capacity.

At 30 June 2012, the Consolidated Entity had an estimated gross current deferred consideration liability of \$12,989,000, of which \$10,500,000 was settled in cash in August 2012.

(iii) Functional and presentation currency

The consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and, in accordance with that Class Order, amounts in the consolidated financial

statements and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

(iv) Use of estimates and judgments

The preparation of financial statements in conformity with AASBs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Refer to Note 1(u) for further details on critical accounting estimates and judgments.

(v) Changes in accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements.

(c) Basis of consolidation

(i) Business combinations

The Consolidated Entity has applied the acquisition method for the business combinations disclosed in Note 28 Acquisitions of subsidiaries and non-controlling interests.

For every business combination, the Consolidated Entity identifies the acquirer, which is the combining entity that obtains control of other combining entities or businesses. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Consolidated Entity takes into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgment is applied in determining the acquisition date and determining whether control is transferred from one party to another.

Measuring goodwill

The Consolidated Entity measures goodwill at fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Consolidated Entity to the previous owners of the acquiree, and equity interests issued by the Consolidated Entity. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination.

Notes to the consolidated financial statements for the year ended 30 June 2012

1. Significant accounting policies (continued)

Business combinations between 1 July 2004 and 30 June 2009

All business combinations between 1 July 2004 and 30 June 2009 are accounted for by applying the purchase method. The cost of acquisition is measured at the aggregate of the fair values, at the time of exchange, of assets given, liabilities incurred or assumed and equity instruments issued in exchange for control of the acquiree, plus any costs attributable to the business combination. Goodwill represents the difference between the cost of the acquisition and the fair value of net assets, liabilities and contingent liabilities acquired.

Deferred consideration on acquisitions is provided based on management's best estimate of the liability at the reporting date. The liability is discounted using a market interest rate for the liability and a present value interest charge is included in the income statement as the discount unwinds. Changes to estimates of amounts payable are made by adjusting deferred consideration using the original interest rate, together with goodwill.

Business combinations prior to 1 July 2004

As part of the transition to AASBs, the classification and accounting treatment of business combinations that occurred prior to 1 July 2004 has been recognised under the Consolidated Entity's previous accounting framework, Australian GAAP.

Contingent liabilities

A contingent liability of the acquiree assumed in a business combination is recognised only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

Non-controlling interest

The Consolidated Entity measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

Transaction costs

Transaction costs that the Consolidated Entity incurs in connection with a business combination, such as finders' fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed as incurred.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Consolidated Entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies of the Consolidated Entity.

(iii) Investments in associates (equity accounted investees)

Associates are those entities in which the Consolidated Entity has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Consolidated Entity holds between 20% and 50% of the voting power of another entity.

Investments in associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Consolidated Entity's investment

includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Consolidated Entity's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. The Consolidated Entity's share of movements in reserves is recognised directly in consolidated reserves. When the Consolidated Entity's share of losses exceeds its interest in an associate, the Consolidated Entity's carrying amount is reduced to nil and recognition of further losses is discontinued, except to the extent that the Consolidated Entity has incurred legal or constructive obligations or made payments on behalf of an associate.

(iv) Transactions eliminated on consolidation

Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Consolidated Entity's interest in the entity, with adjustments made to the "Investment in associates" and "Share of associate's net profit" accounts. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Gains and losses are recognised as the contributed assets are sold by the associate or, if not sold by the associate, when the Consolidated Entity's interest in such entities is disposed of.

(v) Loss of control

Upon the loss of control, the Consolidated Entity derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the income statement. If the Consolidated Entity 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.

(vi) Discontinued operations

A discontinued operation is a component of the Consolidated Entity's business that represents a separate major line of business or geographical area of operation that has been disposed or held for sale or distribution, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

(vii) Assets held for sale

Non-current assets, or disposal group comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components

of a disposal group, are re-measured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on disposal group first is allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis. Impairment losses on initial classification as held for sale and subsequent gains and losses on re-measurement are recognised in the income statement. Once classified as held for sale, intangibles and property, plant and equipment are no longer amortised or depreciated.

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Consolidated Entities at the foreign exchange rate ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the respective functional currencies of the Consolidated Entity at the foreign exchange rate ruling at that date. Foreign exchange differences arising on retranslation are recognised in the income statement, except for differences arising on the retranslation of available-for-sale equity instruments and a financial liability designated as a hedge of the net investment in a foreign operation, which are recognised directly in equity (see (iii) below). Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates prevailing at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income. Since 1 July 2004, the date of transition to AASBs, such differences have been recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss as part of the profit or loss on disposal.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the FCTR.

(iii) Hedge of net investment in foreign operations

Foreign currency differences arising from the retranslation of a financial liability designated as a hedge of the net investment in foreign operations are recognised in other

comprehensive income to the extent that the hedge is effective, and are presented within equity in the FCTR. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged net investment is disposed of, the relevant amount in the FCTR is transferred to profit or loss as an adjustment to the profit or loss on disposal.

(e) Financial instruments

Non-derivative financial assets

The Consolidated Entity initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated as fair value through the profit and loss) are recognised initially on the trade date at which the Consolidated Entity becomes a party to the contractual provisions of the instrument.

The Consolidated Entity derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Consolidated Entity is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Consolidated Entity has the following non-derivative financial assets: loans and receivables, work in progress, and cash and cash equivalents.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables. Trade and other receivables are stated at their cost less impairment losses (see Note 1(h)). The collectability of debts is assessed at reporting date, and specific provision is made for any doubtful accounts. Bad debts are written off as incurred.

Work in progress represents accrued revenue recognised in accordance with Note 1(m) together with rechargeable disbursements.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Consolidated Entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Notes to the consolidated financial statements for the year ended 30 June 2012

1. Significant accounting policies (continued)

Non-derivative financial liabilities

The Consolidated Entity initially recognises debt securities issued and subordinated liabilities on the date they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Consolidated Entity becomes a party to the contractual provisions of the instrument. The Consolidated Entity derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Consolidated Entity has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Consolidated Entity has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts and trade, other payables and deferred consideration.

Financial liabilities, other than deferred consideration, are recognised initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

Deferred consideration

Deferred consideration is classified as a financial liability and is measured at fair value through profit or loss. Deferred consideration on acquisitions is provided based on management's best estimate of the liability (up to any relevant cap) at the reporting date. The liability is discounted using a market interest rate for the liability and a present value interest charge is included in the income statement as the discount unwinds. Fair value adjustments through the income statement are made in relation to changes to estimates of the fair value of amounts payable of the deferred consideration.

Derivative financial instruments including hedging accounting

The Consolidated Entity uses derivative financial instruments to hedge its exposure to interest rate risks and foreign currency exposure arising from operational, financing and investment activities. In accordance with its treasury policy, the Consolidated Entity does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

On initial designation of the hedge, the Consolidated Entity formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Consolidated Entity makes an assessment, both at the inception of the hedge relationship and on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of

80–125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Derivatives are recognised initially at fair value and attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are described below.

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when it is recognised. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in profit and loss. In other cases, the amount recognised in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

(f) Plant and equipment

(i) Recognition and measurement

Items of plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see Note 1(h)). The cost of plant and equipment at 1 July 2004, the date of transition to AASBs, was measured on the basis of deemed cost and was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Where parts of an item of plant and equipment have different useful lives, they are accounted for as separate items of plant and equipment.

Gains and losses on disposal of an item of plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of plant and equipment and are recognised net within "other income" in profit or loss.

(ii) Leased assets

Leases in terms of which the Consolidated Entity assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is

accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases; the leased assets are not recognised on the Consolidated Entity's statement of financial position.

The Consolidated Entity recognises in the carrying amount of an item of property, plant and equipment, the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Consolidated Entity and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. All other costs are recognised in the income statement as an expense as incurred.

(iii) Depreciation

Depreciation is charged to the income statement on both a straight-line and diminishing value basis, as indicated below, over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives, unless it is reasonably certain that the Consolidated Entity will obtain ownership by the end of the lease term. Land is not depreciated. The estimated useful lives in the current and comparative periods are as follows:

	2012		2011	
	Straight - line	Diminishing Value	Straight - line	Diminishing Value
Computer equipment	25%–40%	20%–40%	25%–40%	20%–40%
Office furniture and equipment	5%–25%	5%–40%	5%–25%	5%–40%
Plant and equipment	10%–25%	–	10%–25%	–
Leasehold improvements	Life of lease	Life of lease	Life of lease	Life of lease
Plant and equipment under finance lease	Life of lease	Life of lease	Life of lease	Life of lease

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(g) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries and associates.

Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

Subsequent measurement

Goodwill is measured at cost, less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of the investment and an impairment loss on such an investment is not allocated to any assets, including goodwill, that forms part of the carrying amount of equity accounted investee.

Goodwill allocation to cash generating units

Goodwill is allocated to cash generating units expected to benefit from synergies created by the business combination and is tested for impairment annually or more frequently if events or changes in circumstances indicate the carrying value may be impaired.

Negative goodwill arising on an acquisition is recognised immediately in profit or loss.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes (including internally developed software), is capitalised only if development costs can be reliably measured, the product or process is technically and commercially feasible, future economic benefits are probable, and the Consolidated Entity intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is measured at cost, less accumulated amortisation (see below) and impairment losses (see Note 1(h)).

(iii) Other intangible assets

Other intangible assets that are acquired by the Consolidated Entity are stated at cost less accumulated amortisation (see below) and impairment losses (see Note 1(h)). For each business combination, a review is completed to identify any intangible assets and a valuation of fair value is performed for all intangible assets identified.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

(iv) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(v) Amortisation

Amortisation is calculated over the cost of the asset, or another amount substituted for cost, less its residual value.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Goodwill is systematically tested for impairment each year at the same time. Other intangible assets are amortised from the date they are available for use.

Notes to the consolidated financial statements for the year ended 30 June 2012

1. Significant accounting policies (continued)

The estimated useful lives in the current and comparative periods are as follows:

- IT related intellectual property – 2 to 8 years
- Customer contracts – 3 to 4 years
- Customer relationships – 2 to 8 years
- Brand names – 6 years
- Internally generated intangibles – 2 to 5 years

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(h) Impairment

(i) Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Consolidated Entity on terms that the Consolidated Entity would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Losses are recognised in profit and loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit and loss.

The Consolidated Entity considers evidence of impairment for receivables at a specific asset level. In assessing impairment the Consolidated Entity uses historical trends of the probability of default, timing of recoveries, and the amount of loss incurred/adjusted for management's judgment. The remaining financial assets are assessed collectively, which share similar credit risk characteristics.

(ii) Non-financial assets

The carrying amounts of the Consolidated Entity's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value, less costs to sell. In assessing value in use, the estimated future post-tax cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the

risks specific to the asset. For the purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash generating unit"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, cash generating units (CGUs) to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to the CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary share and share options are recognised as a deduction from equity, net of tax effects.

(ii) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(iii) Transaction costs

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

(j) Employee benefits

(i) Long-term employee benefits

The Consolidated Entity's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates, including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the reporting date which have maturity dates approximating to the terms of the Consolidated Entity's obligations.

(ii) Wages, salaries, annual leave, and non-monetary benefits

Liabilities for employee benefits for wages, salaries, and annual leave that are due to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Consolidated Entity expects to pay as at reporting date, including related on-costs, such as workers compensation insurance, statutory superannuation and payroll tax.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Consolidated Entity has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be reliably estimated.

(iii) Termination benefits

Termination benefits are recognised as an expense when the Consolidated Entity is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Consolidated Entity has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(iv) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related services and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(k) Provisions

A provision is recognised in the statement of financial position when the Consolidated Entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as finance costs.

(i) Make good provision

The Consolidated Entity has made provision for make good on all operating leases for premises which require make good expenditure at completion of the lease. The amount of the provision for make good is capitalised and then

amortised over the remaining term of the individual leases. The provision is the best estimate of the expenditure required to settle the make good obligation. Future make good costs are reviewed annually and any changes are reflected in the provision at the end of the reporting period.

(ii) Lease incentive provision

The Consolidated Entity has made provision for lease incentives received. Lease incentives received are recognised in the income statement as an integral part of the total lease expense spread over the lease term.

(iii) Restructuring

A provision for restructuring is recognised when the Consolidated Entity has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

(iv) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Consolidated Entity from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Consolidated Entity recognises any impairment loss on the assets associated with that contract.

(l) Revenue

All operating revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is determined by reference to outputs and deliverables in connection with the completion of the service. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, or if the costs incurred or to be incurred cannot be measured reliably.

Gross revenue represents billings to clients, inclusive of directly attributable costs of sales, relating to Consolidated Entity subsidiaries where a principal relationship exists between the entity and its client. Where the Consolidated Entity subsidiaries act as an agent, the amount included as revenue is recognised net of amounts collected/paid on behalf of clients.

Net revenue is the amount that flows to the Consolidated Entity net of directly attributable cost of sales. Directly attributable cost of sales includes any project-related costs and rechargeable disbursements.

(i) Advertising, media and production revenue

Advertising, media and production revenues are recognised net of directly attributable cost of sales.

(ii) Retainer fees and commissions

Retainer fees which arise as part of a contract to provide services to a client are recognised over the term of the contract on a straight-line basis, unless there is some other method that better represents the stage of completion.

Commissions-based client revenue is recognised as the service is performed.

Notes to the consolidated financial statements for the year ended 30 June 2012

1. Significant accounting policies (continued)

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred, or to be incurred, cannot be measured reliably, there is a risk of return of goods, or there is continuing management involvement to the degree usually associated with ownership or effective control of the goods.

(iii) Interest

Interest income is recognised in the income statement as it accrues, using the effective interest method.

(m) Lease payments

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and spread over the lease term.

(ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The interest expense component of finance lease payments is recognised in the income statement using the effective interest method.

(iii) Determining whether an arrangement contains a lease

At inception of an arrangement, the Consolidated Entity determines whether such an arrangement is, or contains, a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specific asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Consolidated Entity the right to control the use of the underlying asset. At inception or upon reassessment of the arrangement, the Consolidated Entity separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Consolidated Entity concludes, for a finance lease, that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently, the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Consolidated Entity's incremental borrowing rate.

(n) Finance income and expenses

Finance income comprises interest income on funds invested, dividend income, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Consolidated Entity's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, present value interest charges with respect to the deferred consideration of acquisitions, unwinding of the

discount on provisions and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

(o) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current and deferred tax is recognised in the income statement except, to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available, against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

(p) Segment reporting

The Consolidated Entity determines and presents segments based on the information that is provided internally to the CEO, who is the Consolidated Entity's chief operating decision-maker.

An operating segment is a component of the Consolidated Entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Consolidated Entity's other components. All operating segments' operating results are regularly reviewed by the Consolidated Entity's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis. Unallocated items consist mainly of costs associated with the centralised management and governance of the Consolidated Entity, such as interest-bearing loans, costs of borrowings and related expenses, and corporate head office assets and expenses.

Segment capital expenditure, development expenditure and acquisition of intangibles are the total cost incurred during the period to acquire plant and equipment, and intangible assets other than goodwill.

(q) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (**GST**), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (**ATO**) is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(r) Earnings per share

The Consolidated Entity presents basic and diluted earnings per share (**EPS**) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit and loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible share options granted to employees.

(s) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2011, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the Consolidated Entity's financial statements, except for AASB 9 Financial Instruments, which becomes mandatory for the Consolidated Entity's 2016 consolidated financial statements. The Consolidated Entity does not plan to adopt this standard early and the extent of the impact has not yet been determined.

(t) Determination of fair values

A number of the Consolidated Entity's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes on the following methods.

When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Intangible assets

The fair value of other intangible assets acquired is based on valuation techniques generally using the excess earnings method.

(ii) Trade and other receivables

The fair value of other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. The fair value is determined for disclosure purposes only.

(iii) Derivatives

The fair value of interest rate swaps is based on market valuation, which includes estimated future cash flows based on the terms and maturity of each contract. The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate.

(iv) Share-based payment transactions

The fair value of employee share options is measured using the Black Scholes, Binomial model or Monte Carlo sampling. Measurement inputs include share price on measurement date, exercise price of the instruments, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

(v) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease arrangements.

(u) Critical accounting estimates and judgments

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

The Consolidated Entity makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, not always 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.

Notes to the consolidated financial statements for the year ended 30 June 2012

1. Significant accounting policies (continued)

(i) *Estimated impairment of goodwill*

The Consolidated Entity tests annually whether there is any impairment of goodwill. The recoverable amounts of cash generating units have been determined by applying a value in use method using assumptions of future profit margins and cash flows. Refer to Note 16 for the details of these assumptions and the potential impact of changes to the assumptions.

(ii) *Intangible assets and business combinations*

AASB 3 *Business Combinations* and AASB 138 *Intangible Assets*, the Australian standards on business combinations and intangibles respectively, require the acquirer to separately identify the acquiree's identifiable assets and liabilities, including other intangibles arising on acquisition. This means that the acquirer must recognise other intangible assets, separately from goodwill, where the definition of an intangible asset is met and the fair value of the intangible asset can be measured reliably.

Where significant business acquisitions are undertaken, the Directors commission an independent expert, having satisfied themselves that the expert was appropriately qualified to form a view and to assist them in determining the valuation of intangible assets separately identified and recognised as part of the business combination.

For further details refer to Note 17 Intangible assets.

(iii) *Share-based payments*

The grant date fair value of share-based payment arrangements is determined by an appropriately qualified independent expert commissioned by the Directors. Inputs to the determination of fair value are subjective and include the market value of the instrument on the grant date, expected volatility of the Company's share price, the risk-free interest rate, the dividend yield, the expected life of the instrument, the probability of occurrence of certain events and the exercise price. Certain of these inputs are estimates.

The Directors review the methodologies used by the expert and make enquiries with management to assure themselves that the factual information used by the expert is correct prior to relying on the expert's opinion. Refer to Note 21 for further details.

(iv) *Deferred consideration liability*

Certain acquisitions of subsidiaries made by the Consolidated Entity contain arrangements for further consideration to be paid to vendors subject to certain targets being met. At each reporting date, an estimate is made of whether such targets will be achieved and the Consolidated Entity's liability is then based on the achievement of such targets. The estimate is based on budgets and forecasts prepared by management of the subsidiary, subject to potential additional consideration. The nature of the arrangements means that at the reporting date there is uncertainty around the amount and timing of the liability to be paid in the future under such deferred consideration arrangements.

During the year ended 30 June 2011, the Consolidated Entity entered into agreements to restructure its deferred consideration liabilities such that substantially all agreements contain caps on the total liability. The Consolidated Entity has identified an estimate of the liability for future deferred consideration liabilities based on its best estimates of the achievement of the forecast targets by the relevant subsidiaries and also the Consolidated Entity up to the relevant capped liabilities. There is uncertainty around the actual payments that will be made subject to the performance of the relevant subsidiaries and the Consolidated Entity subsequent to the reporting date versus the targets. Actual future payments may be below the capped amounts, however, they may exceed the estimated liability.

(v) *Impairment of receivables*

The Consolidated Entity carries trade receivables at amortised cost less impairment. The impairment of these receivables is an estimate based on whether there is evidence suggesting that an event has occurred leading to a negative effect on the estimated future cash inflow. Events subsequent to the reporting date but prior to the signing of the financial statements which indicate a negative effect are taken into account in the calculation of impairment. Future events may occur which change these estimates of the future cash inflows related to impaired trade receivables.

(vi) *Revenue recognition*

The Consolidated Entity recognises revenue from services rendered in proportion to the stage of completion of the transaction. Stage of completion estimates are determined by reference to the relative value of services completed in comparison to the total expected services to be completed in any specific project. The estimates require judgments and assumptions and actual results may differ from estimates as at the reporting date.

(vii) *Utilisation of tax losses*

The Consolidated Entity has recognised deferred tax assets on tax losses arising from capital losses generated from disposed subsidiaries during the reporting period. The recognition of tax losses as deferred tax assets is based on the assumption of future taxable capital gains in the same tax jurisdiction due to the recognition of fair value gains in relation to deferred consideration liabilities.

2. Operating segments

In the current financial period, the Consolidated Entity reduced its operating segments to two which are the Entity's operating segments based on regularly reviewed internal reporting and management by the Chief Executive Officer and the management team (the chief operating decision-makers (**CODM**)). The Field Marketing operating segment was disposed of in November 2011 and the basis for assessing performance and determining allocation of resources is now based on the remaining operating businesses collectively.

The operating segments are defined by management, based on the manner in which the services are provided and the geographies which each segment operates in, and report to the Chief Executive Officer and the management team on a monthly basis. Each operating segment is a reportable segment, and these are the sources of the Consolidated Entity's major risks and returns.

The Consolidated Entity considers it operates in two segments:

- **Operating brands:** International and Australian specialised marketing services including public relations, communications strategy and research and data analytics, advertising, direct marketing and stakeholder communications.
- **Field Marketing:** outsourced merchandising and point-of-sale marketing. During the current financial period this entire segment was sold in November 2011.

In the current financial period, in addition to the Field Marketing division disposal, the Consolidated Entity:

- disposed of two small Australian agency businesses; ISS Marketing and Image Box; and
- announced a new Group strategy around a digitally-centered marketing services Group exploiting media and technology with key brands across key geographic hubs.

The smaller number of agencies along with a targeted operating company approach has resulted in the remaining International Agency and Australian Agency segments joining together as the Group aligns to a single vision and management of resources.

During the prior financial reporting period of the year ended 30 June 2011, the Consolidated Entity significantly restructured the Search Marketing segment. Consequently there is no longer a stand-alone Search Marketing Segment.

Inter-segment pricing is determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis.

Unallocated items comprise:

- Corporate overhead – costs associated with the centralised management and governance of Enero Group Limited, such as interest-bearing loans, costs of borrowings and related expenses, and corporate head office assets and expenses.
- Amounts relating to divested and closed businesses which are no longer connected to a segment (digital businesses sold to Salmat in December 2010, Findology sold in December 2010, Sledge sold in January 2011, Yield Media closed in March 2011, Image Box sold in May 2012, ISS Marketing sold in June 2012 and BWM sold on 10 August 2012).

Segment capital expenditure and development expenditure is the total cost incurred during the period to acquire assets that are expected to be used for more than one period.

The measure of reporting to the chief operating decision-maker is on an Operating EBITDA basis (defined below), which excludes significant and non-operating items which are separately presented because of their nature, size and expected infrequent occurrence and do not reflect the underlying trading of the operations.

In relation to segment reporting, the following definitions apply to operating segments:

Operating EBITDA: earnings before interest, taxes, depreciation, amortisation, loss on sale of subsidiaries, fair value adjustment to deferred consideration, impairment charges and restructure costs.

The current and 30 June 2011 comparative amounts have been restated to reflect the current business segment presentation.

Notes to the consolidated financial statements for the year ended 30 June 2012

2. Operating segments (continued)

2012 In thousands of AUD	Operating Brands	Field Marketing (Discontinued)	Total segment	Unallocated	Eliminations	Consolidated
Gross revenue	307,108	55,794	362,902	47,365	(19,919)	390,348
Directly attributable cost of sales	(158,545)	(4,714)	(163,259)	(21,806)	19,919	(165,146)
Net revenue	148,563	51,080	199,643	25,559	-	225,202
Other income	309	-	309	56	-	365
Operating expenses	(124,709)	(44,453)	(169,162)	(35,592)	-	(204,754)
Operating EBITDA	24,163	6,627	30,790	(9,977)	-	20,813
Restructure costs	(4,269)	-	(4,269)	(5,943)	-	(10,212)
Depreciation and amortisation expenses	-	-	-	-	-	(7,896)
Impairment relating to assets classified as held for sale	-	-	-	(5,192)	-	(5,192)
Impairment of intangibles	(128,165)	-	(128,165)	-	-	(128,165)
Loss on sale of subsidiaries	-	(49,703)	(49,703)	(501)	-	(50,204)
Fair value adjustment	-	-	-	-	-	50,760
Net finance expenses	-	-	-	-	-	(8,876)
Income tax expense	-	-	-	-	-	(3,654)
Loss for the period						(142,626)
Goodwill	138,371	-	138,371	-	-	138,371
Other intangibles	3,602	-	3,602	-	-	3,602
Assets excluding intangibles	79,898	-	79,898	214,648	(193,571)	100,975
Total assets	221,871	-	221,871	214,648	(193,571)	242,948
Liabilities	49,139	-	49,139	215,639	(193,571)	71,207
Total liabilities	49,139	-	49,139	215,639	(193,571)	71,207
Amortisation of intangibles	2,289	785	3,074	-	-	3,074
Depreciation	2,858	517	3,375	1,447	-	4,822
Capital expenditure	1,493	1,012	2,505	593	-	3,098
Development expenditure	374	503	877	-	-	877

Geographical segments

The operating segments are managed on a worldwide basis. However, there are three geographic areas of operation.

Geographical information

In thousands of AUD	Net revenues	2012 Non-current assets	Net revenues	2011 Non-current assets
Australasia	150,718	62,102	245,131	306,730
UK & Europe	60,372	86,130	89,456	161,936
USA	14,112	4,513	8,963	3,763
Total	225,202	152,745	343,550	472,429

2011 In thousands of AUD	Operating Brands	Field Marketing (Discontinued)	Total segment	Unallocated	Eliminations	Consolidated
Gross revenue	292,835	139,264	432,099	112,439	(6,193)	538,345
Directly attributable cost of sales	(137,269)	(10,357)	(147,626)	(53,362)	6,193	(194,795)
Net revenue	155,566	128,907	284,473	59,077	—	343,550
Other income	146	118	264	145	—	409
Operating expenses	(130,075)	(104,549)	(234,624)	(56,080)	—	(290,704)
Operating EBITDA	25,637	24,476	50,113	3,142	—	53,255
Depreciation and amortisation expenses						(15,296)
Impairment relating to assets disposed	—	—	—	(17,195)	—	(17,195)
Impairment of intangibles	(34,293)	—	(34,293)	(35,993)	—	(70,286)
Loss on sale of subsidiaries	—	—	—	(6,803)	—	(6,803)
Fair value adjustment						29,739
Net finance expenses						(24,326)
Income tax expense						(8,826)
Loss for the period						(59,738)
Goodwill	273,143	173,639	446,782	—	—	446,782
Other intangibles	6,373	3,583	9,956	—	—	9,956
Assets excluding intangibles	73,638	39,210	112,848	189,169	(178,553)	123,464
Total assets	353,154	216,432	569,586	189,169	(178,553)	580,202
Liabilities	44,199	15,962	60,161	400,162	(178,553)	281,770
Total liabilities	44,199	15,962	60,161	400,162	(178,553)	281,770
Amortisation of intangibles	3,709	2,443	6,152	964	—	7,116
Depreciation	3,041	1,898	4,939	3,241	—	8,180
Capital expenditure	2,482	1,126	3,608	1,407	—	5,015
Development expenditure	220	743	963	533	—	1,496

Notes to the consolidated financial statements
for the year ended 30 June 2012

3. Revenue

In thousands of AUD	2012	2011
Gross revenue from the rendering of services	334,554	399,081
Directly attributable cost of sales	(160,432)	(184,438)
Net revenue	174,122	214,643

4. Finance costs

In thousands of AUD	2012	2011
Finance costs		
Present value interest charges on deferred consideration for business combinations	(4,292)	(9,106)
Interest on external loans	(5,116)	(15,365)
Finance lease interest	(119)	(307)
Interest income	672	479
Finance costs	(8,855)	(24,299)

Foreign exchange losses of \$404,000 (2011: \$495,000) have been recognised in the consolidated income statement and have been included in other operating expenses.

5. Auditors' remuneration

In AUD	2012	2011
Audit services – auditors of the Company		
KPMG Australia	466,000	551,000
Overseas KPMG firm	136,000	234,033
	602,000	785,033
Other services – auditors of the Company		
Taxation compliance services:		
KPMG Australia	–	13,500
Overseas KPMG firm	218,000	173,519
Transaction and due diligence service:		
KPMG Australia	5,000	325,000
	223,000	512,019

6. Income tax expense

Recognised in the income statement

In thousands of AUD	2012	2011
Current tax expense		
Current year	5,674	5,607
Adjustments for prior years	(1,143)	(374)
Adjustments for prior years due to tax legislation changes	1,192	—
	5,723	5,233
Deferred tax expense		
Origination and reversal of temporary differences	(2,069)	3,593
	(2,069)	3,593
Income tax expense in income statement	3,654	8,826
Income tax expense from continuing operations	6,603	2,601
Income tax expense from discontinued operations (excluding on loss on sale)	1,710	6,225
	8,313	8,826
Income tax on loss on sale of discontinued operations	(4,659)	—
Total income tax expense	3,654	8,826

Numerical reconciliation between tax expense and pre-tax accounting loss

In thousands of AUD	2012	2011
Loss for the year	(142,626)	(59,738)
Total income tax expense	3,654	8,826
Loss excluding income tax	(138,972)	(50,912)
Income tax benefit using the Company's domestic tax rate of 30% (2011: 30%)	(41,692)	(15,273)
Decrease in income tax benefit due to:		
Present value interest charges	1,287	2,651
Other non-deductible/(subtraction) items	1,465	762
Accounting amortisation of identifiable intangible assets	1,079	1,463
Imputation gross up on dividends received	196	477
Share option expense/(credit)	552	(231)
Tax losses not brought to account	5,591	239
Tax legislation changes	1,192	—
Effect of losses on sale of subsidiaries	4,333	(1,488)
Impairment charge	40,007	26,111
Increase in income tax benefit due to:		
Tax amortisation of identifiable intangible assets	—	(255)
Effect of losses not previously recognised	(4)	—
Non-assessable fair value gain	(5,920)	(1,894)
Franking credits on dividends received	(653)	(1,591)
Over provision for tax in previous years	(1,143)	(374)
Effect of lower tax rate on overseas incomes	(127)	(248)
Unwinding of deferred tax liability established in business combinations	(2,509)	(1,523)
Income tax expense on pre-tax net loss	3,654	8,826
Deferred tax asset recognised/(released) directly in equity		
Share issue costs and hedge reserve	(226)	2,978
	(226)	2,978
Income tax recognised in other comprehensive income		
Cash flow hedges	(260)	(625)
	(260)	(625)

Notes to the consolidated financial statements for the year ended 30 June 2012

7. Discontinued operations

During the financial year ended 30 June 2012, the Consolidated Entity entered into two sale transactions to dispose of the Field Marketing Division. The segment was not a discontinued operation or classified as held for sale as at 30 June 2011 and the comparative consolidated interim income statement has been re-presented to show the discontinued operation separately from continuing operations.

On 2 September 2011, the Consolidated Entity entered into a sale agreement to dispose of the Retail Insight point of sale data business for a consideration of USD\$11,000,000. The sale was completed with proceeds received on the same day. The Consolidated Entity recognised a loss on sale of \$9,208,000 in the income statement for the year ended 30 June 2012. The loss net of tax in the income statement was \$11,492,000 after tax expense of \$2,284,000 was recognised.

On 2 November 2011, the Consolidated Entity entered into a sale agreement to dispose of Field Marketing segment businesses for a consideration of \$146,500,000. The sale was completed with proceeds received from the disposal of these businesses and control passing to the acquirer on 30 November 2011. The Consolidated Entity recognised a loss on sale of \$40,495,000 in the income statement for the year ended 30 June 2012. The loss net of tax in the income statement was \$33,552,000 after a benefit of \$6,943,000 to income tax was recognised.

In thousands of AUD	2012	2011
Results of discontinued operation		
Revenue	55,794	139,264
Expenses	(50,490)	(119,156)
Results from operating activities	5,304	20,108
Income tax expense	(1,710)	(6,225)
Results from operating activities, net of tax	3,594	13,883
Loss on sale of discontinued operation	(49,703)	—
Income tax benefit on sale of discontinued operation	4,659	—
Profit/(Loss) for the year	(41,450)	13,883
Earnings per share		
Basic (AUD cents)	(52.5)	20.8
Diluted (AUD cents)	(52.5)	20.8

The loss from discontinued operation of \$41,450,485 (2011: profit of \$13,882,855) is attributable entirely to the owners of the Company.

In thousands of AUD	2012	2011
Cash flows from/(used in) discontinued operations		
Net cash from operating activities	(1,603)	15,568
Net cash from investing activities	144,526	(1,744)
Net cash used in financing activities	(6,985)	(14,260)
Net cash flows for the year	135,938	(436)

In thousands of AUD

At date of disposal

Effect of disposal on the financial position of the Group

Assets

Cash and cash equivalents	3,135
Trade and other receivables	22,443
Other assets	5,574
Plant and equipment	3,244
Intangible assets	178,185
Deferred tax assets	990

Total assets of discontinued operation	213,571
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Liabilities

Trade and other payables	14,527
Interest-bearing loans and borrowings	62
Provisions	2,199
Deferred tax liabilities	556
Income tax payable	2,636

Total liabilities of discontinued operation	19,980
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Net assets attributable to discontinued operation	193,591
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Loss on disposal

Consideration received	147,872
Less net assets disposed of	(193,591)
Less foreign currency translation reserve recognised in income statement	(3,984)
Loss on disposal before income tax	(49,703)
Income tax benefit	4,659
Loss on disposal after income tax	(45,044)

Net cash inflow on disposal

Total consideration	149,145
Less cash and cash equivalents balance disposed of	(3,135)
Reflected in the consolidated statement of cash flows	146,010

8. Earnings per share

Profit attributable to ordinary shareholders

In thousands of AUD	2012			2011		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Net loss for the year	(101,176)	(41,450)	(142,626)	(73,621)	13,883	(59,738)
Non-controlling interest	714	–	714	(27)	–	(27)
Net loss for the year attributable to shareholders	(101,890)	(41,450)	(143,340)	(73,594)	13,883	(59,711)

Weighted average number of ordinary shares

	2012	2011
In thousands of shares		
Weighted average number of ordinary shares – basic ⁽ⁱ⁾	78,949	66,621
Shares issuable under equity-based compensation plans ⁽ⁱⁱ⁾	902	–
Weighted average number of ordinary shares – diluted	79,851	66,621

Notes to the consolidated financial statements for the year ended 30 June 2012

8. Earnings per share (continued)

Earnings per share

	2012	2011
Basic (AUD cents)	(181.6)	(89.6)
Diluted (AUD cents)	(181.6)	(89.6)
Basic – continuing operations (AUD cents)	(129.1)	(110.5)
Diluted – continuing operations (AUD cents)	(129.1)	(110.5)
Basic – discontinued operations (AUD cents)	(52.5)	20.8
Diluted – discontinued operations (AUD cents)	(52.5)	20.8

- (i) The weighted average number of shares outstanding includes an adjustment for the share consolidation completed on 29 June 2012 after receiving shareholder approval at a general meeting on 8 June 2012. The prior year earnings per share has also been restated for this share consolidation. The earnings per share for the year ended 30 June 2011 included an adjustment for the equity raising completed on 29 September 2010 after receiving shareholder approval at a general meeting on 17 September 2010.
- (ii) The weighted average shares outstanding includes the incremental shares that would be issued upon the assumed exercise of stock options if the effect is dilutive. Because the Consolidated Entity has a loss from continuing operations in 2012 and 2011, no potentially dilutive shares were included in the denominator computing diluted earnings per shares since the impact on earnings per share would be anti-dilutive.

9. Cash and cash equivalents

In thousands of AUD	Note	2012	2011
Cash at bank and on hand		21,401	18,262
Bank short-term deposits		113	302
Cash and cash equivalents in statement of financial position and statement of cash flows	30	21,514	18,564

The Consolidated Entity's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 25 Financial risk management/financial instruments.

10. Trade and other receivables

In thousands of AUD	Note	2012	2011
Current			
Trade receivables		38,177	71,927
Less: provision for impairment loss	25	(186)	(838)
		37,991	71,089
Other receivables		1,309	1,055
		39,300	72,144
Non-current			
Other non-current receivables		457	376
		457	376
Total trade and other receivables		39,757	72,520

No interest is charged on trade debtors. The Consolidated Entity's exposure to credit and currency risk and impairment losses related to trade and other receivables is disclosed in Note 25.

11. Other assets

In thousands of AUD	2012	2011
Current		
Work in progress	5,902	4,783
Prepayments	3,416	4,609
Other current assets	1,033	659
	10,351	10,051
Non-current		
Deposits	383	515
Other non-current assets	522	601
	905	1,116

12. Other financial assets

In thousands of AUD	2012	2011
Non-current investments		
Deposits – interest-bearing	–	50
	–	50

Deposits – interest-bearing

Interest-bearing deposits at 30 June 2011 are amounts paid to secure leasing facilities. These amounts are held in bank term deposit accounts and pay at an average weighted interest rate of 3.75%.

13. Current tax assets and liabilities

The Consolidated Entity has a net current tax receivable of \$17,000 (2011: \$4,509,000). The net current receivable is comprised of current tax receivables of \$ 803,000 (2011: \$7,014,000) and current tax payables of \$ 786,000 (2011: \$2,505,000). Tax receivable of \$109,000 was classified as held for sale at 30 June 2012.

On 25 November 2011, the Federal Government announced proposals to amend existing tax consolidation legislation. The announcement proposes both retrospective and prospective changes to the tax consolidation legislation. The changes were substantively enacted on 27 June 2012.

The Consolidated Entity recognised its right to additional tax deductions following the enactment of tax consolidation amendments in May 2010 related to rights to future income. Following legislation that became substantively enacted on 27 June 2012, the Consolidated entity has now reversed this right to additional tax deductions in the current year reducing income tax receivable by \$1,192,000 with a corresponding increase in income tax expense.

14. Disposal group classified as held for sale

The Board of Directors resolved to dispose the Consolidated Entity's 51% interest in subsidiary Belgiovane Williams Mackay (BWM) for \$7,500,000 in cash consideration. The transaction was completed on 10 August 2012. As at 30 June 2012 this business was classified as a disposal group held for sale.

The major classes of assets and liabilities of Belgiovane Williams Mackay at 30 June 2012 are as follows:

In thousands of AUD	2012
Assets	
Cash and cash equivalents	1,895
Trade and other receivables	8,869
Plant and equipment	1,235
Intangible assets	5,707
Income tax receivable	110
Deferred tax assets	419
Assets classified as held for sale	18,235
Liabilities	
Trade and other payables	9,572
Provisions	866
Liabilities directly associated with assets classified as held for sale	10,438
Net assets attributable to held for sale businesses	7,797

The Consolidated Entity has recognised an impairment charge of \$5,192,000 as part of the loss on sale related to the disposal group held for sale by reducing the intangible assets including goodwill down to their recoverable amount as at 30 June 2012.

Notes to the consolidated financial statements for the year ended 30 June 2012

15. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

In thousands of AUD	2012	2011
Deferred tax asset		
Tax losses carried forward	16,064	4,061
Employee benefits	1,319	2,474
Impairment of doubtful debts	21	199
Accruals and income in advance	745	1,925
Leased assets	193	156
Lease make good	243	410
Lease incentive	29	159
Deductible share issue costs	2,833	3,978
Plant and equipment	345	695
Identifiable intangibles	190	702
Hedge reserve on interest rate swaps	—	260
Fair value loss	—	400
Other	179	339
Gross deferred tax asset	22,161	15,758
Set-off of deferred tax asset	(18,788)	(13,808)
Net deferred tax asset	3,373	1,950
Deferred tax liabilities		
Identifiable intangibles	1,243	3,816
Lease make good asset	96	106
Work in progress	1,352	2,509
Fair value gain	16,064	7,226
Fixed assets	33	79
Other	—	72
Gross deferred tax liability	18,788	13,808
Set-off of deferred tax liability	(18,788)	(13,808)
Net deferred tax liability	—	—

Deferred tax assets/liabilities not taken into account

Deferred tax assets have not been recognised in respect of the following items because it is not probable that future taxable profit will be available against which the Consolidated Entity can utilise the benefits from:

Revenue losses	27,857	9,480
Capital losses	44,121	29,584
Gross tax losses carried forward	71,978	39,064

16. Plant and equipment

In thousands of AUD	2012	2011
Computer equipment		
At cost	7,288	12,720
Accumulated depreciation	(5,301)	(9,124)
	1,987	3,596
Office furniture and equipment		
At cost	4,284	8,173
Accumulated depreciation	(3,211)	(5,934)
	1,073	2,239
Plant and equipment		
At cost	931	6,936
Accumulated depreciation	(796)	(5,328)
	135	1,608
Leasehold improvements		
At cost	5,118	8,901
Accumulated depreciation	(3,424)	(5,562)
	1,694	3,339

In thousands of AUD	2012	2011
Plant and equipment under finance lease		
At cost	1,835	5,639
Accumulated amortisation	(687)	(4,222)
	1,148	1,417
Total plant and equipment, net written-down value	6,037	12,199
Reconciliations		
<i>Reconciliations of the carrying amounts of each class of property, plant and equipment are set out below:</i>		
Computer equipment		
Carrying amount at the beginning of the year	3,596	5,799
Disposal of subsidiaries	(1,169)	(1,368)
Additions	1,632	2,361
Depreciation	(1,872)	(2,874)
Effect of movements in exchange rates	16	(305)
Classified as held for sale	(203)	—
Disposals	(13)	(17)
Carrying amount at the end of the year	1,987	3,596
Office furniture and equipment		
Carrying amount at the beginning of the year	2,239	3,492
Disposal of subsidiaries	(747)	(185)
Additions	606	447
Depreciation	(878)	(1,310)
Effect of movements in exchange rates	4	(96)
Classified as held for sale	(139)	—
Disposals	(12)	(109)
Carrying amount at the end of the year	1,073	2,239
Plant and equipment		
Carrying amount at the beginning of the year	1,608	2,347
Disposal of subsidiaries	(799)	(248)
Additions	241	760
Depreciation	(555)	(1,188)
Effect of movements in exchange rates	(8)	(12)
Classified as held for sale	(302)	—
Disposals	(50)	(51)
Carrying amount at the end of the year	135	1,608
Leasehold improvements		
Carrying amount at the beginning of the year	3,339	3,589
Disposal of subsidiaries	(651)	(93)
Additions	660	1,396
Depreciation	(956)	(1,358)
Effect of movements in exchange rates	8	(114)
Classified as held for sale	(591)	—
Disposals	(115)	(81)
Carrying amount at the end of the year	1,694	3,339
Leased plant and equipment		
Carrying amount at the beginning of the year	1,417	2,775
Disposal of subsidiaries	(104)	(152)
Additions	523	316
Amortisation	(561)	(1,468)
Disposals	(127)	(54)
Carrying amount at the end of the year	1,148	1,417

Notes to the consolidated financial statements for the year ended 30 June 2012

17. Intangible assets

In thousands of AUD	2012	2011
Goodwill		
At cost	382,825	566,947
Impairment	(244,454)	(120,165)
	138,371	446,782
IT related intellectual property		
At cost	9,306	12,200
Accumulated amortisation	(511)	(3,284)
Impairment	(8,795)	(8,884)
	—	32
Contracts and customer relationships		
At cost	17,574	33,420
Accumulated amortisation	(13,747)	(24,614)
Impairment	(681)	(739)
	3,146	8,067
Brand names		
At cost	—	751
Accumulated amortisation	—	(713)
	—	38
Internally generated intangible assets		
At cost	4,417	7,398
Accumulated amortisation	(1,833)	(3,451)
Impairment	(2,128)	(2,128)
	456	1,819
Total intangible assets, net carrying value	141,973	456,738

Reconciliations

Reconciliations of the carrying amounts of intangibles are set out below:

Goodwill		
Carrying amount at the beginning of the year	446,782	635,456
Acquisitions through business combinations	4	301
Disposal of subsidiaries	(175,196)	(72,692)
Adjustments through deferred consideration	1,486	(540)
Impairment	(133,357)	(78,325)
Classified as held for sale	(4,794)	—
Effect of movement in exchange rate	3,446	(37,418)
Carrying amount at the end of the year	138,371	446,782
IT related intellectual property		
Carrying amount at the beginning of the year	32	5,397
Disposal of subsidiaries	(18)	(113)
Impairment	—	(4,458)
Amortisation	(24)	(699)
Effect of movement in exchange rate	10	(95)
Carrying amount at the end of the year	—	32
Contracts and customer relationships		
Carrying amount at the beginning of the year	8,067	14,139
Disposal of subsidiaries	(1,656)	(160)
Impairment	—	(693)
Amortisation	(2,438)	(4,035)
Classified as held for sale	(913)	—
Effect of movement in exchange rate	86	(1,184)
Carrying amount at the end of the year	3,146	8,067

In thousands of AUD	2012	2011
Brand name		
Carrying amount at the beginning of the year	38	163
Amortisation	(38)	(125)
	–	38
Internally generated intangible assets		
Carrying amount at the beginning of the year	1,819	7,396
Disposal of subsidiaries	(1,709)	(2,049)
Additions	877	1,496
Impairment	–	(2,338)
Amortisation	(574)	(2,257)
Effect of movement in exchange rate	43	(429)
Carrying amount at the end of the year	456	1,819

Amortisation charge

The amortisation charge of \$3,074,000 (2011: \$7,116,000) is recognised in the depreciation and amortisation expense in the income statement.

Impairment charge

In thousands of AUD	2012	2011
Impairment of intangibles	128,165	70,286
Impairment relating to assets disposed during year ⁽ⁱ⁾	–	17,195
Impairment relating to assets classified as held for sale ⁽ⁱⁱ⁾	5,192	–
Impairment charge	133,357	87,481

(i) An amount of \$1,667,000 of the above amount was in relation to tangible assets impaired on assets disposed of during the year ended 30 June 2011.

(ii) Refer Note 14 Disposal group classified as held for sale for further details.

Goodwill CGU group allocation

In thousands of AUD	2012	2011
<i>The Consolidated Entity's carrying amount of goodwill for each of the CGU groups identified:</i>		
Operating brands	138,371	273,143
Field Marketing (discontinued operations)	–	173,639
	138,371	446,782

The Search Marketing CGU does not have any carrying value, as goodwill relating to these businesses was fully impaired during the year ended 30 June 2011.

Impairment tests for cash generating unit (CGU) groups containing goodwill

Goodwill is tested for impairment on a division or business unit basis, reflecting the synergies obtained by the division or business unit. During the financial year ended 30 June 2012, the Consolidated Entity announced an organisational restructure and would be managed as one collective group. In doing so, the aggregation of assets for identifying CGU groups was adjusted to reflect the lowest level of management of the groups of assets and the synergies of the business groupings. The reorganisation has not significantly changed the allocation of goodwill to CGUs, but has resulted in previously separate CGUs being aggregated based on a management strategy to reduce the number of operating businesses and merging together similar businesses and aligning all operating brands to the same vision. The aggregation of assets in CGU groups continues to be determined using a service offering. The CGU groups are consistent with the operating segments of the Consolidated Entity. The remaining Search Marketing businesses do not form part of the Operating Brand CGU as they do not obtain synergies with the businesses in that CGU. However they have no carrying value.

The recoverable amount of a CGU group is assessed using calculation methodologies based on value-in-use calculation. The recoverable amount methodologies and assumptions for all of the CGU groups have remained materially consistent with those applied as at 30 June 2011, as disclosed in the 30 June 2011 annual financial report.

Notes to the consolidated financial statements for the year ended 30 June 2012

17. Intangible assets (continued)

Key assumptions used in the value in use approach to test for impairment relate to the discount rate and the medium-term and long-term growth rates applied to projected cash flows.

Projected cash flows

The projected first year of cash flows are derived from results for the current financial year adjusted in some cases for expectations of future trading performance to reflect the best estimate of the CGU group's cash flows at the time of this report. Projected cash flows can differ from future actual results of operations and cash flows.

Discount rates

The discount rate is based on the Consolidated Entity's pre-tax weighted average cost of capital (WACC) adjusted if necessary to reflect the specific characteristics of each CGU group and to obtain a post-tax discount rate. The discount rate has been adjusted to reflect the current view on the appropriate debt equity ratio and risks inherent in assessing future cash flows.

Growth rates

A growth rate of 3% (30 June 2011: 3%) has been applied to the cash flows of the first financial year to determine cash flows for the next four years. The five years of cash flows are discounted to present value. The growth rate is based on analysis of medium-term historical trading performance and organic growth expectations.

Long-term growth rate into perpetuity

Long-term growth rates of 3% (30 June 2011: 3%) are used into perpetuity, based on expected long-range growth rates for the industry.

	2012 inputs			2011 inputs		
	Post-tax discount rate %	Pre-tax discount rate %	Forecast growth rate %	Post-tax discount rate %	Pre-tax discount rate %	Forecast growth rate %
Impairment testing assumptions for CGU groups						
Operating Brands ⁽ⁱ⁾	11.23	14.71	3	9.64	12.73	3
Field Marketing (discontinued operations)	—	—	—	9.64	12.73	3

(i) In relation to the impairment charge recognised during the year, the inputs for both the Australian Agency and International Agency CGUs were the same as those disclosed for the Operating Brands CGU.

Impairment of intangible assets in the year ended 30 June 2012:

The discount rate has been adjusted to reflect the current view on the appropriate debt equity ratio and risks inherent in assessing future cash flows.

The below impairment charges are to previous CGUs which were determined before the Consolidated Entity reorganised its CGUs into one Operating Brand CGU on 30 April 2012.

Australian Agency CGU group impaired:

During the year ended 30 June 2012, the Australian Agency CGU, which provides a range of integrated marketing and advertising services in Australia, experienced a decline in earnings due to under-performance across a number of small agencies leading to their restructure, the impact of certain client contract losses and reductions in client spending in the CGU. The Consolidated Entity reviewed the future cash flows of the Australian Agency CGU and adjusted for the estimated cash flow impact of the current performance levels. As the carrying value of the Australian Agency CGU is higher than its recoverable amount based on its value in use, the Consolidated Entity has recognised an impairment charge against the goodwill of the Australian Agency CGU in the income statement of \$72,163,000.

International Agency CGU group impaired:

During the year ended 30 June 2012, the International Agency CGU, which excludes search marketing businesses reported in the International Agency segment, experienced a decline in earnings due to losses in non-core offices which are subsequently being closed in the CGU and a reduction in client spending. The Consolidated Entity reviewed the future cash flows of the International Agency CGU and adjusted for the estimated cash flow impact of the current performance levels. As the carrying value of the International Agency CGU is higher than its recoverable amount based on its value in use, the Consolidated Entity has recognised an impairment charge against the goodwill of the International Agency CGU in the income statement of \$56,002,000.

The estimate of the value in use for the Australian Agency CGU and International Agency CGU group impairment testing was determined using:

- A post-tax discount rate of 11.23% (2011: 9.64%)
- Growth rate of 3% for four years from the best estimate of the CGU group future cash flows (2011: 3%); and
- Long-term growth rate of 3% into perpetuity (2011: 3%).

Impairment of intangible assets in the year ended 30 June 2011:

Search Marketing CGU group impaired:

During the year ended 30 June 2011, the Search Marketing cash generating unit (CGU) group continued to experience declines in trading due to the same factors disclosed in the Annual Report for the financial year ended 30 June 2010. As a result of this, the Consolidated Entity reviewed the likely future capital requirements, the return on investment in the Search Marketing CGU and the volatility of the cash flows due to the changes in the market dynamics, and significantly discounted the expected cash flows from the CGU. The Consolidated Entity therefore recognised an impairment charge on all goodwill and intangible assets in the Search Marketing CGU. An impairment charge on intangible assets of \$35,993,000 was recognised in the income statement relating to the Search Marketing CGU.

Australian Agency CGU group impaired:

During the year ended 30 June 2011, the Australian Agency CGU, which provides a range of integrated marketing and advertising services in Australia, lost a significant client contract. The Consolidated Entity reviewed the future cash flows of the Australian Agency CGU and adjusted for the estimated cash flow impact of this client contract. As the carrying value of the Australian Agency CGU is higher than its recoverable amount based on its value in use, the Consolidated Entity has recognised an impairment charge against the goodwill of the Australian Agency CGU in the income statement of \$34,293,000.

The estimate of the value in use for the Australian Agency CGU group impairment testing was determined using:

- a post-tax discount rate of 9.64% (2010: 9.83%);
- growth rate of 3% for four years from the best estimate of the CGU group future cash flows (2010: 7.5%); and
- long-term growth rate of 3% into perpetuity (2010: 3%).

Impairment relating to assets disposed during the year:

During the year ended 30 June 2011, the Consolidated Entity disposed of the Sledge and Findology businesses. An impairment charge of \$17,195,000 was recognised in the income statement to recognise these assets at their recoverable amount at the date of classification as held for sale. See Note 29 Disposal of subsidiaries for further details.

Sensitivity range assumptions for impairment testing assumptions

The following sensitivity ranges are attributable to each CGU group for impairment testing for which the impairment loss was calculated on the assumptions above:

	2012 Sensitivity range		2011 Sensitivity range	
	Post-tax discount rate %	Growth rate %	Post-tax discount rate %	Growth rate %
Operating Brands	8.98–13.48	0–7.5	8.29–10.99	0–10

As at 30 June 2012, the estimated recoverable amount of the CGU exceeds its carrying amount by approximately \$6,300,000. In the sensitivity ranges tested, the Operating Brands CGU would be impaired applying a 1.5% growth rate and a post-tax discount rate of 11.23% or by increasing the post-tax discount rate to 11.58% and applying a 3% growth rate.

Notes to the consolidated financial statements for the year ended 30 June 2012

18. Trade and other payables

In thousands of AUD	2012	2011
Current liabilities		
Trade payables	15,260	16,297
Other trade payables and accrued expenses	9,945	26,511
Unearned income	12,407	15,164
	37,612	57,972
Non-current liabilities		
Other payables	42	33
	42	33

The Consolidated Entity's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 25 Financial risk management/financial instruments.

19. Deferred consideration payables

In thousands of AUD	2012	2011
Current liabilities		
Deferred consideration payable	12,989	40,021
	12,989	40,021
Non-current liabilities		
Deferred consideration payable	548	49,933
	548	49,933
Total deferred consideration payable current and non-current	13,537	89,954

Deferred consideration liabilities at year end reporting date are the present value of expected future payments.

During the year ended 30 June 2011, the consolidated entity entered into agreements to restructure its deferred consideration liability such that substantially all of the deferred consideration liabilities have been capped. The consolidated entity has estimated the liability for future deferred consideration liabilities based on the probability of the achievement of forecast targets by the relevant subsidiaries and also the Consolidated Entity. There is uncertainty around the actual payments that will be made subject to the performance of the relevant subsidiaries and the Consolidated Entity after the reporting date versus the forecast targets. Actual future payments may be below the capped amounts; however they may exceed the estimated liability. In relation to the restructured conditional consideration, an amount of \$72,939,000 is not recognised as at 30 June 2012.

Of the estimated nominal current deferred consideration liability of \$13,607,000:

- \$672,000 will be satisfied by the issue of equity; and
- \$12,935,000 is to be settled in cash.

The Consolidated Entity's exposure to currency and liquidity risk in relation to deferred consideration liabilities is described in Note 25 Financial risk management/financial instruments.

20. Loans and borrowings

This Note provides information about the contractual terms of the Consolidated Entity's interest-bearing loans and borrowings. For more information about the Consolidated Entity's exposure to interest rate, liquidity risk and foreign currency risk, see Note 25 Financial risk management/financial instruments.

In thousands of AUD	2012	2011
Current liabilities		
Finance lease liabilities	367	572
Hire purchase lease liabilities	444	994
Derivative financial liability	—	476
	811	2,042
Non-current liabilities		
Secured bank loans	—	114,443
Other non-current loans	—	16
Finance lease liabilities	—	379
Hire purchase lease liabilities	643	691
Derivative financial liability	—	390
	643	115,919

Terms and debt repayment schedule

There were no bank loans outstanding at 30 June 2012. Terms and conditions of bank loans outstanding at 30 June 2011 were as follows:

In thousands of AUD

Currency	Date of maturity	Face value	30 June 2012 carrying amount	Face value	30 June 2011 carrying amount
AUD	31 March 2013	—	—	48,605	48,605
GBP ⁽ⁱⁱ⁾	na	—	—	47,736	47,736
USD ⁽ⁱⁱ⁾	na	—	—	21,236	21,236
Total secured bank loans⁽ⁱ⁾		—	—	117,577	117,577

(i) Represents the gross secured bank loans payable. In the prior reporting period, ancillary borrowing costs of \$3,134,000 are applied against the gross balances resulting in a net secured bank loan payable of \$114,443,000. The ancillary costs are unwound over the term of the facility.

(ii) The Consolidated Entity no longer has the ability to draw debt in GBP or USD.

Notes to the consolidated financial statements
for the year ended 30 June 2012

20. Loans and borrowings (continued)

Financing facilities

In thousands of AUD	2012	2011
The Consolidated Entity has access to the following lines of credit:		
<i>Total facilities available:</i>		
Bank overdrafts	2,615	3,303
Cash advance facility	16,000	150,000
Interest rate swap facility	—	11,400
Lease finance facility	2,554	6,460
Indemnity guarantee facility	4,101	5,322
Earn out bank guarantee facility	11,700	30,807
ANZ Online facility	7,000	7,000
Credit card facility	2,190	2,300
	46,160	216,592
<i>Facilities used at reporting date:</i>		
Bank overdrafts	—	—
Cash advance facility ⁽ⁱ⁾	—	117,577
Interest rate swap facility	—	—
Lease finance facility	1,457	2,639
Indemnity guarantee facility	2,373	3,491
Earn out bank guarantee facility	11,700	30,807
ANZ Online facility	—	—
Credit card facility	268	321
	15,798	154,835
<i>Facilities not utilised at reporting date:</i>		
Bank overdrafts	2,615	3,303
Cash advance facility	16,000	32,423
Interest rate swap facility	—	11,400
Lease finance facility	1,097	3,821
Indemnity guarantee facility	1,728	1,831
Earn out bank guarantee facility	—	—
ANZ Online facility	7,000	7,000
Credit card facility	1,922	1,979
	30,362	61,757

- (i) Represents the gross secured bank loans payable. In the prior reporting period, ancillary borrowing costs of \$3,134,000 are applied against the gross balances resulting in a net secured bank loan payable of \$114,443,000. The ancillary costs are unwound over the term of the facility.

Financing arrangements

All finance facilities, with the exception of a portion of the bank overdrafts, are negotiated by the Company on behalf of the Consolidated Entity. The carrying amount of amounts drawn down on facilities as at the reporting date equates to face value.

Bank overdrafts

The bank overdraft of Enero Group Limited is included in the security arrangements associated with the Fixed/Variable Rate Cash Advance Facility. The bank overdraft is payable on demand and subject to annual review. Interest on the bank overdraft is charged at prevailing market rates.

The bank overdraft of Belgiovane Williams Mackay Pty Limited is secured by a debenture over the assets and undertakings of Belgiovane Williams Mackay Pty Limited. The bank overdraft is payable on demand and subject to annual review. Interest on the bank overdraft is charged at prevailing market rates.

The bank overdraft of Naked Communications Limited, Hyper Happen Limited and Lunch Communications Limited is secured by a debenture over the assets and undertakings of Naked Communications Limited, Hyper Happen Limited and Lunch Communications Limited. The bank overdraft is payable on demand and subject to annual review. Interest on the bank overdraft is charged at prevailing market rates.

Cash Advance Facility

Amounts drawn on the Cash Advance Facility are denominated in AUD, GBP and USD and bear interest, based on the following:

- \$16,000,000 (2011: \$150,000,000) general corporate finance facility: the bank bill swap reference rate – average bid for 90 days plus a fixed margin.

Some exposure to the bank bill swap rate was fixed through the use of interest rate swap arrangements (as detailed below).

The Cash Advance Facility is secured by:

- a first registered company charge (Mortgage Debenture) over all the assets and undertakings of Enero Group Limited and certain of its wholly owned subsidiaries;
- cross guarantee and indemnity between Enero Group Limited and certain of its wholly owned subsidiaries; and
- standard shares and securities mortgage over all shares held by Enero Group Limited and certain of its wholly owned subsidiaries in their controlled and associated entities.

Interest rate swap facility

The interest rate swap facility was in place to assist with hedging in interest rate exposures.

The bank loan was repaid in full during the year and all hedging relationships were settled during the year ended 30 June 2012.

As at 30 June 2011 interest rate swap transactions swapping floating for fixed interest rates were in place under the following arrangements:

- fixed rate of 5.92% for a notional amount of GBP 10,000,000 for the period 25 July 2008 to 31 October 2011;
- fixed rate of 3.98% for a notional amount of USD 10,000,000 for the period 25 July 2008 to 31 October 2011;
- fixed rate of 1.40% for a notional amount of USD 12,500,000 for the period 24 December 2009 to 31 October 2011; and
- fixed rate of 2.72% for a notional amount of GBP 10,000,000 for the period 24 December 2009 to 31 October 2012.

Lease finance facility

The lease finance facility is subject to annual review and is in place to assist with capital expenditure requirements.

Indemnity guarantee facility

The indemnity guarantee facility is in place to support financial guarantees outstanding at any one time. Specific guarantee amounts are \$2,373,000 (2011: \$3,491,000) supporting property rental and other obligations.

Earn out bank guarantee facility

The earn out bank guarantee facility is in place to support financial guarantees of cash earn out payments due to vendors as part of deferred consideration arrangements. Specific guarantee amounts are \$11,745,000 (2011: \$30,807,000).

ANZ Online facility

The ANZ Online facility of \$7,000,000 (2011: \$7,000,000) is subject to annual review and is in place to assist with distribution of payroll and payments to creditors.

Credit card facility

The credit card facility is subject to annual review and is subject to application approval and the bank's standard terms and conditions.

Notes to the consolidated financial statements for the year ended 30 June 2012

20. Loans and borrowings (continued)

In thousands of AUD	2012	2011
Finance lease and hire purchase payable commitments		
<i>Finance lease commitments are payable:</i>		
Within one year	881	1,690
One year or later and no later than five years	712	1,163
	1,593	2,853
Less: Future lease finance charges	(139)	(217)
	1,454	2,636
Finance lease and hire purchase liabilities provided for in the financial statements		
Current	811	1,566
Non-current	643	1,070
Finance lease commitments are payable	1,454	2,636

The Consolidated Entity leases plant and equipment under finance leases expiring from one to five years (2011: one to five years). At the end of the lease term, the Consolidated Entity has the option to purchase the equipment at a substantial discount to market value. The terms of the leases require that additional debt and further leases are not undertaken without prior approval of the lessor.

21. Employee benefits

In thousands of AUD	2012	2011
Aggregate liability for employee benefits, including on-costs		
Current		
Employee benefits provision	3,907	7,361
Non-current		
Employee benefits provision	844	1,269

	2012	Consolidated 2011
<i>The present values of employee entitlements not expected to be settled within 12 months of reporting date have been calculated using the following weighted averages:</i>		
Assumed rate increase in salary and wage rates (%)	3–5	0–5
Discount rate (%)	3.57	5.22
Settlement term (years)	7–10	7–10

The Consolidated Entity has recognised \$3,870,000 (2011: \$6,973,000) as an expense in the income statement for defined contribution plans during the reporting period.

Equity-based plans

During the financial year, long-term incentives (**LTi**) were provided as equity-based incentives in the Company under the Share Appreciation Rights plan (**SAR**).

Options over ordinary shares in the Company which were granted in prior financial years under the terms of the Executive Share Option Scheme (**ESOS**) remain outstanding; however given the exercise price of such options relative to the current price of ordinary shares in the Company, they are no longer considered to provide any meaningful **LTI**.

Shares issued under a limited recourse loan to Jeremy Philips (**Jeremy Philips LTIP**) are outstanding. However the plan is no longer active as Jeremy Philips is no longer employed by the Consolidated Entity.

The performance conditions for option over ordinary shares in the Company issued under the Senior Executive Option Plan (**SEOP**) have not been met, therefore these options expired during the year and did not provide any **LTI**.

Share Appreciation Rights (SAR)

During the year ended 30 June 2011, the Company introduced a Share Appreciation Rights plan, designed to incentivise the senior Executives and other senior management of the Consolidated Entity.

The fair value of the **SAR** is measured using the Black Scholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historical volatility), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service conditions attached to the transactions are not taken into account in determining fair value.

The plan allows for the Board to determine who is entitled to participate in the **SAR** and may grant rights accordingly. Eneo's Board may determine whether or not the grant of rights is conditional on the achievement of performance hurdles, and if so the nature of those hurdles.

The exercise of each right will entitle the rights holder to receive a fraction of an ordinary share based on a conversion formula of $(A - B)/A$, where **A** is the volume weighted average price (**VWAP**) for the Company's shares for the 20 business days prior to the vesting date of the rights and **B** is the **VWAP** for the Company's shares for the 20 business days before the rights were granted.

A total of 5,292,208 rights were issued on 18 August 2011; however the service period for these rights commenced on 31 May 2011 when the employees accepted the invitations to be granted rights. The **VWAP** for the 20 days prior to the grant date (**B**) was 63 cents.

The rights issued on 18 August 2011 vest as follows:

- 20 days after the release of the Consolidated Entity's financial report for year ended 30 June 2012 – 2/9ths;

- 20 days after the release of the Consolidated Entity's financial report for year ended 30 June 2013 – 3/9ths; and
- 20 days after the release of the Consolidated Entity's financial report for year ended 30 June 2014 – 4/9ths.

The Board may exercise discretion on early vesting of rights in the event of a change of control of the Consolidated Entity.

Rights expire at five business days after the relevant vesting date or the termination of the individual's employment.

Jeremy Philips Long-term Incentive Plan (Jeremy Philips LTIP)

In April 2010, the Company granted Jeremy Philips a limited recourse loan to subscribe for 500,000 ordinary shares in the Company. The ordinary shares were issued at \$20.34, with the limited recourse loan being provided for the issue price. The ordinary shares issued under the **LTIP** are subject to vesting and escrow conditions.

The fair value of the in-substance options is measured using the Binomial method. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historical volatility), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service conditions attached to the transactions are not taken into account in determining fair value.

In accordance with the terms of the service agreement, and in connection with the equity raising completed on 29 September 2010, Jeremy Philips subscribed for a further 3,608,134 shares funded by limited recourse loan provided by the Company. The additional ordinary shares under the **LTIP** were issued at \$1.80, with the further limited recourse loan being provided for the issue price.

Jeremy Philips is not able to deal with any ordinary shares issued under the **LTIP** until they vest as follows:

- 912,919 at 30 June 2012;
- 1,369,378 at 30 June 2013; and
- 1,825,837 at 30 June 2014

Any dividends received from the ordinary shares will be offset against interest payable on the limited recourse loan. Repayment of the loan will be made on the earlier of the sale of the relevant shares or 12 months after vesting. Jeremy Philips may elect to forfeit the shares to which any loan repayment relates, in lieu of making a repayment which is due.

On 12 January 2012, Jeremy Philips forfeited 111,111 shares which would have vested on 30 June 2012 in accordance with his termination provisions. The remaining shares under the **LTIP** remain potentially exercisable subject to the continuing terms of the arrangement until the expiration of his post-employment restrictions and obligations on 13 June 2013 and only on occurrence of a change of control event.

Notes to the consolidated financial statements for the year ended 30 June 2012

21. Employee benefits (continued)

On 16 January 2012 the Company issued 888,889 SAR to the Chief Executive Officer, Matthew Melhuish, subject to shareholder approval. The rights issued vest as follows:

- 20 days after the release of the Consolidated Entity's financial report for year ended 30 June 2013 – 2/9ths;
- 20 days after the release of the Consolidated Entity's financial report for year ended 30 June 2014 – 3/9ths; and
- 20 days after the release of the Consolidated Entity's financial report for year ended 30 June 2015 – 4/9ths.

Executive Share Option Scheme (ESOS)

The Company has an Executive Share Option Scheme (ESOS).

The plan allows for the Board to determine who is entitled to participate in the ESOS and to grant options accordingly. The exercise of an option will entitle the option holder to subscribe for one share.

The fair value options issued under the ESOS is measured using the Black Scholes formula or the Binomial model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historical volatility), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

No options were granted under the ESOS during the financial year; however as at 30 June 2012, 55,092 ESOS options over unissued shares remain outstanding. The ESOS outstanding have an average exercise price of \$50.03 and therefore are not considered to provide any LTI.

Senior Executive Option Plan (SEOP)

In July 2007, the Company introduced a Senior Executive Option Plan (SEOP), designed to incentivise the Company's Executive Directors and other senior Executives.

The options were granted on 20 November 2007 or, if later, when the employee commenced employment, with an exercise price of \$108.00. Each option granted had both a service condition and a market performance hurdle. Options only vest if both the performance vesting hurdle, requiring an 18% year-on-year increase in Enero Group's share price, and the service vesting condition are satisfied.

The fair value of options issued under the SEOP is measured using the Monte Carlo simulation method. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historical volatility), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

The Monte Carlo simulation method requires the use of many individual simulations and each simulation entails the following steps:

- Simulate the share price of the Company, and the companies in the peer group, as at a performance test date. The share prices are simulated such that they are consistent with the assumed distribution of, and correlation between, share price outcomes.
- Determine whether any awards vest at the current test date, based on simulated share prices.
- For any vesting awards, calculate the value using the simulated share price. This valuation uses either an analytic or a Binomial tree methodology.
- Calculate the present value of the award as at the valuation date.

The results of many simulations are aggregated to determine the total fair value of the award.

No SEOP options were issued as none of the performance vesting hurdles had been met and all SEOP options expired on 1 July 2011.

Details of options over unissued ordinary shares held by Executives of the Consolidated Entity are set out in the Remuneration report.

Share Appreciation Rights (SAR), Employee Share Option Scheme (ESOS), Senior Executive Option Plan (SEOP) and Jeremy Philips Long-term Incentive Plan (Jeremy Philips LTIP).

Summary of options over unissued ordinary shares

Grant date	Expiry date	Weighted average exercise price	Number of options outstanding at beginning of year	Options granted during year	Options exercised during year	Options expired during year	Options forfeited during year	Number of options at year end		Proceeds received	Date issued	Number of shares issued	Expected life (years)
								Outstanding	Vested				
2012													
30 Aug 2006	30 Aug 2011	\$68.76	41,389	–	–	41,389	–	–	–	–	–	–	2–5
17 Oct 2006	30 Sep 2011– 30 Sep 2012	\$65.52	41,667	–	–	13,889	–	27,778	27,778	–	–	–	3.5–6.5
1 Jul 2007	1 Jul 2012	\$87.30	34,703	–	–	–	17,479	17,224	17,224	–	–	–	3.5–4.5
27 Aug 2007	26 Aug 2012	\$93.06	5,556	–	–	–	–	5,556	5,556	–	–	–	3.5–4.5
20 Nov 2007 ⁽ⁱ⁾	31 Mar 2011– 31 Mar 2012	\$108.00	33,333	–	–	33,333	–	–	–	–	–	–	2.8–3.8
5 Feb 2008	28 Feb 2013	\$80.82	13,335	–	–	–	12,501	834	834	–	–	–	2–5
1 Apr 2008	31 Mar 2013	\$56.16	3,056	–	–	–	3,056	–	–	–	–	–	2.4–3.4
1 Apr 2008 ⁽ⁱ⁾	31 Mar 2011– 31 Mar 2012	\$108.00	22,222	–	–	22,222	–	–	–	–	–	–	2.4–3.4
1 Oct 2008	30 Sep 2013	\$33.12	45,790	–	–	–	37,232	8,558	5,705	–	–	–	2–5
11 Feb 2009	31 Jan 2014	\$16.38	13,889	–	–	–	13,889	–	–	–	–	–	2–5
30 Jun 2009	30 Jun 2014	\$11.16	8,333	–	–	–	–	8,333	5,555	–	–	–	2–5
26 Oct 2009	26 Oct 2014	\$19.98	32,793	–	–	–	18,206	14,587	4,862	–	–	–	2–5
12 Feb 2010	12 Feb 2015	\$19.08	11,111	–	–	–	11,111	–	–	–	–	–	2–5
5 Mar 2010	5 Mar 2015	\$19.08	5,556	–	–	–	5,556	–	–	–	–	–	2–5
20 Apr 2010 ⁽ⁱⁱ⁾	30 Jun 2015	\$20.34	500,000	–	–	–	111,111	388,889	–	–	–	–	2–5
17 Sep 2010 ⁽ⁱⁱ⁾	30 Jun 2015	\$1.80	3,608,134	–	–	–	–	3,608,134	801,808	–	–	–	2–5
18 Aug 2011 ⁽ⁱⁱⁱ⁾	30 Sep 2014	\$0.63	5,292,208	–	–	–	1,455,669	3,836,539	–	–	–	–	1.1–3.1
16 Jan 2012 ^(iv)	30 Sep 2015	na	–	888,889	–	–	–	888,889	–	–	–	–	1.9–3.9
			9,713,075	888,889	–	110,833	1,685,769	8,805,321	869,322	–		–	

The number of options in the table above has been restated for the one for eighteen share consolidation. Refer Note 24 for further details in respect of the share consolidation.

(i) SEOP options were granted but are not issued until vesting conditions are met.

(ii) Relates to subscription to ordinary shares through a LTIP which are accounted for as in-substance options.

(iii) Relates to SAR issued on 18 August 2011.

(iv) Relates to SAR issued on 16 January 2012 to Chief Executive Officer, Matthew Melhuish. The grant is subject to shareholder approval.

Notes to the consolidated financial statements for the year ended 30 June 2012

21. Employee benefits (continued)

Share Appreciation Rights (SAR), Employee Share Option Scheme (ESOS), Senior Executive Option Plan (SEOP) and Jeremy Philips Long-term Incentive Plan (Jeremy Philips LTIP).

Summary of options over unissued ordinary shares

		Weighted average exercise price	Number of options outstanding at beginning of year	Options granted during year	Options exercised during year	Options expired during year	Options forfeited during year	Number of options at year end		Proceeds received	Date issued	Number of shares issued	Expected life (years)
Grant date	Expiry date							Outstanding	Vested				
2011													
29 Jul 2005	29 Jul 2010	\$47.52	76,716	–	–	76,716	–	–	–	–	–	–	2–5
30 Aug 2006	30 Aug 2011	\$68.76	49,556	–	–	–	8,167	41,389	41,389	–	–	–	2–5
17 Oct 2006	30 Sep 2011– 30 Sep 2012	\$65.52	41,667	–	–	–	–	41,667	41,667	–	–	–	3.5–6.5
1 Jul 2007	1 Jul 2012	\$87.30	62,481	–	–	–	27,778	34,703	23,135	–	–	–	3.5–4.5
27 Aug 2007	26 Aug 2012	\$93.06	5,556	–	–	–	–	5,556	3,704	–	–	–	3.5–4.5
20 Nov 2007	20 Dec 2012	\$88.38	55,556	–	–	–	55,556	–	–	–	–	–	3–4
20 Nov 2007 ⁽ⁱ⁾	31 Mar 2011– 31 Mar 2012	\$108.00	283,333	–	–	94,445	155,555	33,333	–	–	–	–	2.8–3.8
5 Feb 2008	28 Feb 2013	\$80.82	13,891	–	–	–	556	13,335	8,890	–	–	–	2–5
1 Apr 2008	31 Mar 2013	\$56.16	3,056	–	–	–	–	3,056	2,037	–	–	–	2.4–3.4
1 Apr 2008 ⁽ⁱⁱ⁾	31 Mar 2011– 31 Mar 2012	\$108.00	25,000	–	–	2,778	–	22,222	–	–	–	–	2.4–3.4
1 Oct 2008	30 Sep 2013	\$33.12	77,512	–	–	–	31,722	45,790	15,263	–	–	–	2–5
17 Nov 2008	16 Nov 2013	\$16.38	2,778	–	–	–	2,778	–	–	–	–	–	2–5
11 Feb 2009	31 Jan 2014	\$16.38	14,167	–	–	–	278	13,889	4,630	–	–	–	2–5
30 Jun 2009	30 Jun 2014	\$11.16	22,222	–	–	–	13,889	8,333	2,778	–	–	–	2–5
26 Oct 2009	26 Oct 2014	\$19.98	51,126	–	–	–	18,333	32,793	–	–	–	–	2–5
8 Dec 2009	8 Dec 2014	\$19.08	22,222	–	–	–	22,222	–	–	–	–	–	1–5
12 Feb 2010	12 Feb 2015	\$19.08	11,111	–	–	–	–	11,111	–	–	–	–	2–5
5 Mar 2010	5 Mar 2015	\$19.08	5,556	–	–	–	–	5,556	–	–	–	–	2–5
20 Apr 2010 ⁽ⁱⁱⁱ⁾	30 Jun 2015	\$20.34	500,000	–	–	–	–	500,000	–	–	–	–	2–5
17 Sep 2010 ⁽ⁱⁱⁱ⁾	30 Jun 2015	\$1.80	3,608,134	–	–	–	–	3,608,134	–	–	–	–	2–5
18 Aug 2011 ^(iv)	30 Sep 2014	\$0.63	–	5,292,208	–	–	–	5,292,208	–	–	–	–	1.1–3.1
			4,931,640	5,292,208	–	173,939	336,834	9,713,075	143,493	–		–	

The number of options in the table above has been restated for the one for eighteen share consolidation. Refer Note 24 for further details in respect of the share consolidation.

(i) SEOP options were granted but are not issued until vesting conditions are met.

(ii) Relates to subscription to ordinary shares through an LTIP which are accounted for as in-substance options.

(iii) Relates to subscription to ordinary shares through an LTIP which are accounted for as in-substance options. The grant date is 17 September 2010, being the date of shareholder approval at a general meeting.

(iv) Relates to SAR which were issued after the balance sheet date. However the service period for the grant commenced on 31 May 2011, being the date the employees accepted the invitation to be granted rights.

The number and weighted average exercise price of share options is as follows:

	Weighted average exercise price 2012 \$	Number of options 2012	Weighted average exercise price 2011 \$	Number of options 2011
Outstanding at 1 July	4.03	9,713,075	15.51	4,931,640
Forfeited during the period	4.76	(1,685,810)	79.53	(336,834)
Expired during the period	88.43	(110,833)	79.70	(173,939)
Exercised during the period	—	—	—	—
Granted during the period	0.63	888,889	0.63	5,292,208
Outstanding at 30 June	2.49	8,805,321	4.03	9,713,075
Exercisable at 30 June	6.51	869,322	65.43	143,493

- The number of options in the table above has been restated for the one for eighteen share consolidation. Refer Note 24 for further details in respect of the share consolidation.
- The options outstanding at 30 June 2012 have an exercise price in the range of \$0.63 to \$108.00 (30 June 2011: \$0.63 to \$108.00) and a weighted average contractual life of 2.26 years (30 June 2011: 3.10 years).
- There were no options exercised during the year (2011: Nil).
- The fair value of services received in return from share options granted is based on the fair value of share options granted, measured using:
 - the Black Scholes model: options under ESOS and SAR;
 - the Binomial model: options under ESOS and Jeremy Philips LTIP; and
 - the Monte Carlo model: options under SEOP.

The fair value of share options are disclosed in the Remuneration Report within the Directors' Report. The total net expenses recognised in the Consolidated Entity for the financial year 30 June 2012 for share-based payment transactions was \$1,841,000 (2011: Income of \$770,000).

2012 – Inputs for measurement of grant date fair value

The following factors and assumptions were used in determining the fair value of the options on the grant date:

Grant date	Expiry date	Value per option \$	Exercise price \$	Price of shares on grant date \$	Expected volatility %	Risk-free interest rate %	Dividend yield %	Expected life (years)
18 Aug 2011 ⁽ⁱ⁾	30 Sept 2014	0.252 – 0.378	0.63	0.76	60	3.50–3.60	0.0	1.1–3.1
16 Jan 2012 ⁽ⁱⁱ⁾	30 Sept 2015	0.252 – 0.378	na	na	60	3.50–3.60	0.0	1.9–3.9

- (i) Grant is in relation to SAR provided to senior employees of the Consolidated Entity which were issued on 18 August 2011. The last expiry date of the rights is 20 business days after the release of the Consolidated Entity's financial report for the year ended 30 June 2014, which is estimated to be around 30 September 2014.
- (ii) Grant is in relation to SAR issued to the Chief Executive Officer on 16 January 2012, subject to shareholder approval. The last expiry date of the rights is 20 business days after the release of the Consolidated Entity's financial report for the year ended 30 June 2015, which is estimated to be around 30 September 2015. The value per option and exercise price is estimated as the grant has not been approved by shareholders.

2011 – Inputs for measurement of grant date fair value

The following factors and assumptions were used in determining the fair value of the options on the grant date:

Grant date	Expiry date	Value per option \$	Exercise price \$	Price of shares on grant date \$	Expected volatility %	Risk-free interest rate %	Dividend yield %	Expected life (years)
17 Sep 2010 ⁽ⁱ⁾	30 Jun 2015	0.54–0.72	1.80	1.80	40	4.72	0.0	2–5
18 Aug 2011 ⁽ⁱⁱ⁾	30 Sept 2014	0.252 – 0.378	0.63	0.76	60	3.50–3.60	0.0	1.1–3.1

- (i) Grant is in relation to Jeremy Philips LTIP provided for the sole purpose of subscribing for 3,608,134 ordinary shares in the Company. Dividends paid by the Company will be applied against interest on the loan. The grant date is 17 September 2010, being the date of shareholder approval at a general meeting.
- (ii) Share Appreciation Rights are calculated at the date of grant using either the Black Scholes model or Binomial option pricing model. The fair value is allocated to each reporting period on a straight-line basis over the period from the grant date (or service commencement date) to the vesting date. The rights were issued on 18 August 2011. However as the service commenced on 31 May 2011, being the date the employees accepted invitations to be granted rights, the amounts included above represent the fair value allocated between service commencement date and the balance sheet date.

Notes to the consolidated financial statements
for the year ended 30 June 2012

22. Key management personnel and other related party disclosures

In addition to Executive and Non-Executive Directors, the following were key management personnel of the Consolidated Entity at any time during the reporting period.

Name	Position
Jeremy Philips ⁽ⁱ⁾	Chief Executive Officer
Clare Battellino ⁽ⁱⁱ⁾	Chief Financial Officer
Nigel Long ⁽ⁱⁱ⁾	Head of International Agencies Division
Craig Hart ⁽ⁱⁱⁱ⁾	Head of Field Marketing Division
Jon Wilkins ^(iv)	Head of Strategy & Development
Brendan York	Group Finance Director

(i) Jeremy Philips resigned as Chief Executive Officer on 12 December 2011.

(ii) Clare Battellino and Nigel Long ceased to be employees and key management personnel; effective 30 April 2012.

(iii) Craig Hart ceased to be an employee and key management personnel; effective 30 November 2011.

(iv) Jon Wilkins ceased to be key management personnel; effective 31 December 2011.

Loans with key management personnel

No loans were outstanding at the reporting date to key management personnel and their related parties except for the limited recourse loan granted to Jeremy Philips, as described in section 1(c) of the Remuneration report.

Other transactions with the Company or its controlled entities

A number of the key management personnel, or their related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

There were no transactions with the Company or its subsidiaries and key management personnel in the current or prior reporting period.

Director related party transactions

During the current reporting period, the Company paid \$4,513 in fees to BlueOX Australia Pty Limited in relation to secretarial services provided. BlueOx Australia Pty Limited is controlled by John Porter. There were no Director-related party transactions in the prior reporting period.

The key management personnel compensation (including all Directors) is as follows:

In AUD	2012	2011
Short-term employee benefits	5,576,464	6,602,027
Other long-term benefits	18,169	170,323
Post-employee benefits	199,441	263,667
Termination benefits	3,750,541	1,046,701
Share-based payments – Jeremy Philips LTIP	1,510,594	1,506,466
Share-based payments – Share Appreciation Rights	129,605	22,810
Share-based payments – Options granted under ESOS	4,580	77,595
Share-based payments – Options granted under SEOP	–	97,464
Total share-based payments	1,644,779	1,704,335
Total key management personnel compensation	11,189,394	9,787,053

The compensation received by Nigel Long, Craig Hart and Jon Wilkins was for services rendered in relation to the management of the Consolidated Entity on behalf of the Company.

The prior year comparative totals include key management personnel in 2011 who were not key management personnel in 2012 and have therefore not been disclosed in the Remuneration report while being included in the total above in accordance with AASB 124 *Related Party Disclosures*.

Options and rights over equity instruments granted as remuneration

The movement during the reporting period in the number of options over ordinary shares in Enero Group Limited held, directly, indirectly or beneficially, by each key management personnel, including their related entities, is as follows:

2012	Granted held at 1 July 2011	Granted as remuneration in year	Cancelled	Expired	Granted held at 30 June 2012	Vested during the year	Vested and exercisable at 30 June 2012
Director							
Matthew Melhuish ⁽ⁱ⁾	333,334	888,889	—	—	1,222,223	—	—
Stephen Gatfield ⁽ⁱⁱ⁾	333,334	—	—	—	333,334	—	—
Executives							
Jeremy Philips ^(vi) ^(viii)	4,108,134	—	(111,111)	—	3,997,023	801,808	801,808
Clare Battellino ⁽ⁱⁱ⁾ ⁽ⁱⁱⁱ⁾	386,112	—	(363,890)	(22,222)	—	—	—
Nigel Long ⁽ⁱⁱⁱ⁾	369,446	—	(13,890)	(22,222)	333,334	—	—
Craig Hart ^(iv)	333,334	—	(333,334)	—	—	—	—
Jon Wilkins ^(v)	341,667	—	—	—	341,667	2,778	5,556
Brendan York ⁽ⁱⁱⁱ⁾	58,889	—	—	—	58,889	1,111	2,592

2011	Granted held at 1 July 2010	Granted as remuneration in year	Cancelled	Expired	Granted held at 30 June 2011	Vested during the year	Vested and exercisable at 30 June 2011
Director							
Tim Hughes ^(vii)	327,778	—	(216,667)	(111,111)	—	—	—
Executives							
Matthew Melhuish ⁽ⁱ⁾	—	333,334	—	—	333,334	—	—
Jeremy Philips ^(viii)	500,000	3,608,134	—	—	4,108,134	—	—
Clare Battellino ⁽ⁱⁱ⁾	73,889	333,334	(10,000)	(11,111)	386,112	10,185	12,037
Nigel Long	48,890	333,334	(10,000)	(2,778)	369,446	4,630	7,407
Craig Hart	—	333,334	—	—	333,334	—	—
Jon Wilkins	18,333	333,334	(10,000)	—	341,667	2,778	2,778

The number of option in the table above has been restated for the one for eighteen share consolidation. Refer Note 24 for further details in respect of the share consolidation.

(i) Matthew Melhuish was appointed as a Chief Executive Officer and Director on 16 January 2012. In the period from 1 July 2011 to 15 January 2012 and in the prior period he was key management personnel as Head of Australian Agencies.

(ii) Opening balances represent options granted prior to becoming key management personnel.

(iii) Clare Battellino and Nigel Long ceased to be employees and key management personnel; effective 30 April 2012.

(iv) Craig Hart ceased to be an employee and key management personnel; effective 30 November 2011.

(v) Jon Wilkins ceased to be key management personnel; effective 31 December 2011. The above balance represents options granted and exercisable on that date.

(vi) Jeremy Philips resigned on 12 December 2011; however as per his service agreement; the Jeremy Philips LTIP continues to vest (subject to compliance with post-employment restrictions) during the contractual notice period and the period of the post-employment restrictions.

(vii) Tim Hughes resigned as Director on 11 August 2010.

(viii) Options over ordinary shares for this analysis include the Jeremy Philips LTIP and SAR even though they do not provide options over ordinary shares. They are included because the Jeremy Philips LTIP and SAR are accounted for as in-substance options.

(ix) No options exercised during the year.

No options held by key management personnel are vested but not exercisable at 30 June 2012.

No options were held by key management personnel related parties.

Notes to the consolidated financial statements for the year ended 30 June 2012

22. Key management personnel and other related party disclosures (continued)

Movements in shares

The movement during the reporting period in the number of ordinary shares in Enero Group Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2011	Purchases	Issued as remuneration	Received on exercise of option	Sales	Held at 30 June 2012
Directors						
John Porter ^(ix)	270,833	—	—	—	—	270,833
Matthew Melhuish ⁽ⁱ⁾	737,242	—	—	—	—	737,242
Stephen Gatfield	—	—	—	—	—	—
Brian Bickmore	40,671	—	—	—	—	40,671
Susan McIntosh	122,223	—	—	—	—	122,223
Roger Amos	7,556	—	—	—	—	7,556
Max Johnston	—	27,778	—	—	—	27,778
Executives						
Jeremy Philips ⁽ⁱⁱ⁾	194,444	—	—	—	(2,500)	191,944
Clare Battellino ⁽ⁱⁱⁱ⁾	—	—	—	—	—	—
Nigel Long ⁽ⁱⁱⁱ⁾	—	—	—	—	—	—
Craig Hart ^(iv)	—	—	—	—	—	—
Jon Wilkins ^(v)	—	—	—	—	—	—
Brendan York ^(viii)	119	—	—	—	—	119

	Held at 1 July 2010	Purchases	Issued as remuneration	Received on exercise of option	Sales	Held at 30 June 2011
Directors						
Tim Hughes ^(vi)	389,186	—	—	—	—	389,186
Brian Bickmore	9,038	31,633	—	—	—	40,671
Susan McIntosh	27,161	95,062	—	—	—	122,223
Roger Amos	—	7,556	—	—	—	7,556
Paul Gregory ^(vii)	11,111	—	—	—	—	11,111
Max Johnston	—	—	—	—	—	—
Executives						
Jeremy Philips ⁽ⁱⁱ⁾	—	194,444	—	—	—	194,444
Clare Battellino	—	—	—	—	—	—
Matthew Melhuish ⁽ⁱ⁾	737,242	—	—	—	—	737,242
Nigel Long	—	—	—	—	—	—
Craig Hart	—	—	—	—	—	—
Jon Wilkins	—	—	—	—	—	—

The number of option in the table above has been restated for the one for eighteen share consolidation. Refer Note 24 for further details in respect of the share consolidation.

- (i) Matthew Melhuish was appointed as a Chief Executive Officer and Director on 16 January 2012. In the period 1 July 2011 to 15 January 2012 and in the prior financial period he was key management personnel as head of Australian Agencies.
- (ii) Jeremy Philips holds 3,997,023 shares issued under a limited recourse loan. These are treated as in-substance options and are not included in this table.
- (iii) Clare Battellino and Nigel Long ceased to be employees and key management personnel on 30 April 2012. The above balance represents shares held at that time.
- (iv) Craig Hart ceased to be an employee and key management personnel; effective 30 November 2011. The above balance represents shares held at that time.
- (v) Jon Wilkins ceased to be key management personnel; effective 31 December 2011. The above balance represents shares held at that time.
- (vi) Tim Hughes resigned as a Director on 11 August 2010. The above balance represents shares held at the time of resignation.
- (vii) Paul Gregory resigned as a Director on 23 November 2010. The above balance represents shares held at that time.
- (viii) Opening balances represent options granted prior to becoming key management personnel.
- (ix) John Porter was appointed as Director on 24 April 2012. The above balance represents shares held at that time.

23. Provisions

In thousands of AUD	2012	2011
Current		
Lease make good	217	655
Lease incentive	33	803
Rent straight-line	30	172
Restructure provision	1,227	1,234
	1,507	2,864
Non-current		
Lease make good	857	1,190
Lease incentive	36	65
Rent straight-line	35	248
Restructure provision	152	348
	1,080	1,851
Total provisions current and non-current	2,587	4,715
Reconciliations		
Reconciliations of the carrying amounts of each class of provision, except for employee benefits, are set out below:		
<i>Lease make good</i>		
Carrying amount at beginning of year	1,845	2,242
Increase due to new provision	402	522
Disposal of subsidiaries	(401)	(141)
Effect of movement in exchange rates	9	(93)
Classified as held for sale	(168)	–
Released during the year	(613)	(685)
Carrying amount at end of year	1,074	1,845
<i>Lease incentive</i>		
Carrying amount at beginning of year	868	1,212
Increase due to new incentive	346	290
Disposal of subsidiaries	(84)	–
Effect of movement in exchange rates	1	(11)
Classified as held for sale	(479)	–
Used during the year	(583)	(623)
Carrying amount at end of year	69	868
<i>Rent straight-line</i>		
Carrying amount at beginning of year	420	911
Net rental benefit recognised in period	(385)	(493)
Increase due to new provision	249	2
Classified as held for sale	(219)	–
Carrying amount at end of year	65	420
<i>Restructure provision</i>		
Carrying amount at beginning of year	1,582	6,227
Increase due to new provision	1,035	–
Provision used during the year	(1,238)	(4,645)
Carrying amount at end of year	1,379	1,582
Total provisions current and non-current	2,587	4,715

Notes to the consolidated financial statements for the year ended 30 June 2012

24. Capital and reserves

In thousands of AUD	2012	2011
Share capital		
85,604,954 (2011: 85,604,954) ordinary shares, fully paid	489,391	477,284

The Company does not have authorised capital or par value in respect of its shares.
All issued shares are fully paid.

Ordinary shares

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder meetings.

Ordinary shares

Movements during the year

Balance at beginning of year 85,604,954 (2011: 10,413,492) shares	477,284	369,268
2012 shares issued:		
– 6,750,300 shares released from escrow condition pursuant to acquisition of subsidiaries for \$1.80 per share ^{(i) (iii)}	12,151	–
– 39,642 shares issued from trust pursuant to equity-settled employee bonuses ⁽ⁱⁱ⁾	34	–
2011 shares issued:		
– 22,222,223 shares issued pursuant to placement for \$1.80 per share	–	40,000
– 34,696,791 shares issued pursuant to the rights issue for \$1.80 per share	–	62,454
– 6,908,500 shares issued pursuant to acquisition of subsidiaries for \$1.80 per share ⁽ⁱ⁾	–	12,436
– 45,791 shares issued pursuant to equity-settled employee bonuses	–	75
– 3,608,134 ordinary shares issued in connection with Jeremy Philips LTIP ⁽ⁱⁱ⁾	–	–
Share issue costs:		
Share issue costs	(111)	(9,927)
Tax effect of share issue costs	33	2,978
Balance at end of year	489,391	477,284

(i) A total of 14,618,523 shares were issued to deferred consideration beneficiaries pursuant to the deferred consideration element of the recapitalisation completed in September 2010. During the year ended 30 June 2012 a total of 6,750,300 shares (30 June 2011: 6,908,500) were released from escrow conditions and recognised as share capital as individual earn out periods have been completed.

(ii) During the year ended 30 June 2012 a total of 586,389 shares were released from escrow and transferred into a trust held by the Company as the escrow conditions were not met when individual earn out periods were completed. On 12 January 2012, an additional 111,111 shares forfeited by Jeremy Philips were transferred into a trust held by the Company. Of these share held in trust the Company issued 39,642 shares to its employees as equity-settled bonuses and recognised these as share capital. As at 30 June 2012, a total of 657,858 shares (30 June 2011: Nil) were held in trust by the Company.

(iii) As at 30 June 2012, a total of 373,334 shares (30 June 2011: 7,710,023) remain in escrow conditions awaiting completion of individual earn out periods.

Share Consolidation

Enero Group Limited completed a one for eighteen share consolidation in June 2012, being the conversion of every eighteen fully paid ordinary shares on issue into one fully paid share following the approval by shareholders in an Extraordinary General Meeting held on 8 June 2012. Where the share consolidation resulted in a shareholder having a fractional entitlement to a share, the entitlement was rounded up to the next whole number of shares. Upon the completion of the share consolidation in June 2012, the number of Enero Group Limited shares on issue reduced from 1,540,886,866 shares to 85,604,954 shares as at that date.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

Options reserve

The options reserve comprises the cumulative expense relating to the fair value of options on issue to key management personnel and employees.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Dividends**2012**

No dividend was declared during the year ended on 30 June 2012 or after the balance sheet date but before the date of this report.

2011

No dividend was declared during the year ended on 30 June 2011.

Dividend franking account
In thousands of AUD

	2012	Company 2011
30% franking credits available to shareholders of Eneo Group Limited for subsequent financial years	22,918	26,942

The above amounts represent the balance of the franking account at year end adjusted for:

- franking credits that will arise from the payment of the current tax liability;
- franking debits that will arise from the payment of dividends recognised as a liability at year end;
- franking credits that will arise from the receipt of dividends recognised as receivables at year end; and
- franking credits that may be prevented from being distributed in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends and any restrictions to paying dividends.

There is no impact on the dividend franking account as no dividends have been proposed after the reporting date.

Notes to the consolidated financial statements for the year ended 30 June 2012

25. Financial risk management/financial instruments

The Consolidated Entity has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

The Consolidated Entity's principal financial instruments comprise cash, receivables, payables, interest-bearing liabilities, other financial liabilities and derivative financial instruments.

The Consolidated Entity exposure to key financial risks is managed as part of the Consolidated Entity's risk management policy. The policy covers the key financial risks, such as interest rate, foreign exchange, counterparty credit and liquidity.

The Consolidated Entity's risk management policies seek to identify and analyse the risks faced by the Consolidated Entity, and to set appropriate risk limits and controls to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Consolidated Entity's activities.

The Consolidated Entity uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rates, foreign exchange, liquidity and credit risk. The Consolidated Entity enters into derivative financial instruments, principally interest rate swaps and forward rate agreements, to manage interest rate and foreign currency risks. The Consolidated Entity seeks to deal only with creditworthy counterparties and these assessments are regularly reviewed. Liquidity risk is monitored through the use of rolling cash flow forecasts.

The Consolidated Entity considers that there are no changes to the objectives, policies and process to managing risk and the exposure to risks from the prior reporting period.

Credit risk

Exposure to credit risk

Credit risk is the risk of financial loss to the Consolidated Entity if a customer or counterparty to a financial instrument fails to meet its contractual obligation, and arises principally from a Consolidated Entity's receivables from customers. Each subsidiary is responsible for its analysis of the creditworthiness of new customers and for determining whether the subsidiary's standard payment terms and conditions are offered. The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

During the year ended 30 June 2012, the Consolidated Entity entered into transactions with more than 1,200 unique customers. The 10 largest customers accounted for 26.4% of net revenue for the year ended 30 June 2012,

with no one customer accounting for more than 4.9% of net revenue. There are no material credit exposures relating to single or groups of receivables.

The carrying amount of financial assets represents the maximum credit exposure. The maximum credit exposure to credit risk at the reporting date was:

In thousands of AUD	Note	Carrying amount	
		2012	2011
Trade and other receivables	10	39,757	72,520
Cash and cash equivalents	9	21,514	18,564
Deposits	11	383	515
Deposits – interest-bearing	12	–	50
		61,654	91,649

The Consolidated Entity's maximum exposure to trade receivables credit risk at the reporting date was:

In thousands of AUD	Note	Carrying amount	
		2012	2011
Trade receivables	10	37,991	71,089

The Consolidated Entity's credit risk exposure is consistent across the geographic and business segments in which the Consolidated Entity operates.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

In thousands of AUD	2012	2011
Balance at 1 July	838	3,257
Impairment loss recognised in income statement	68	701
Included in net assets of divested entities	(55)	(1,529)
Classified as held for sale	(51)	–
Provision used during year	(614)	(1,591)
Balance at 30 June	186	838

Based on historic trading terms, the Consolidated Entity believes that no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 90 days, which represents 95.7% (2011: 93.9%) of the trade receivables balance. For trade receivables which are past due and over 90 days, the Consolidated Entity individually assesses each trade receivable and determines its recoverability. For those trade receivables which are assessed as non-recoverable, an impairment allowance is made, which represents 0.5% (2011: 1.1%) of the total trade receivables balance.

The allowance accounts in respect of trade receivables are used to record impairment losses unless the Consolidated Entity is satisfied that no recovery of the amount owing is possible; at that point, the amount is considered irrecoverable and is written off against the financial asset directly.

Impairment losses

The ageing of the Consolidated Entity's trade receivables at the reporting date was:

In thousands of AUD	Gross 2012	Impairment 2012	Gross 2011	Impairment 2011
Not past due	29,483	—	54,082	—
Past due and less than 90 days	7,067	—	13,423	—
Past due and more than 90 days	1,441	—	3,584	—
Past due, more than 90 days and impaired	186	186	838	838
	38,177	186	71,927	838

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Consolidated Entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising the return on risk.

The Consolidated Entity enters into derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Consolidated Entity's treasury risk management policy.

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The source and nature of this risk arise from operations and translation risks.

The Consolidated Entity generated approximately 36.1% of its net revenue in the year ended 30 June 2012 from outside Australia. The Consolidated Entity's reporting currency is Australian dollars. However, the international operations give rise to an exposure to changes in foreign exchange rates, as the majority of its revenues from outside Australia are denominated in currencies other than Australian dollars, most significantly pounds sterling and US dollars.

The Consolidated Entity has minimal exposure to profit and loss translation risk as the majority of transactions denominated in foreign currency are transacted by entities within the Group with the same functional currency of the relevant transaction.

Liquidity risk

Liquidity risk is the risk that the Consolidated Entity will not be able to meet its financial obligations as they become due. The Consolidated Entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due.

The Consolidated Entity manages liquidity risk by monitoring forecast operating cash flows, committed unutilised borrowing facilities, and re-estimating the value of deferred consideration liabilities semi-annually.

During the year, the Consolidated Entity sold the Field Marketing division subsidiaries to Navis Group for a total consideration of \$146,500,000 and also sold the Retail Insight point-of-sale business for USD \$11,000,000. The sale proceeds were used to pay down debt and meet deferred consideration liabilities throughout the financial year ended 30 June 2012.

At 30 June 2012, the Consolidated Entity had \$16,000,000 (2011: \$32,423,000) of committed unutilised borrowing capacity under its \$16,000,000 cash advance facilities (2011: \$150,000,000). The Consolidated Entity also has \$2,615,000 (2011: \$3,303,000) of overdraft facilities available to it which were undrawn at 30 June 2012.

Notes to the consolidated financial statements for the year ended 30 June 2012

25. Financial risk management/financial instruments (continued)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

30 June 2012 In thousands of AUD	Carrying amount	Contractual cash flows	Less than 1 year	1–5 years	Over 5 years
Non-derivative financial liabilities					
Finance lease/hire purchase liabilities	1,454	1,593	881	712	–
Trade and other payables (excluding unearned revenue)	25,247	25,247	25,205	42	–
Deferred consideration	13,537	13,695	13,104	591	–
	40,238	40,535	39,190	1,345	–

30 June 2011 In thousands of AUD	Carrying amount	Contractual cash flows	Less than 1 year	1–5 years	Over 5 years
Non-derivative financial liabilities					
Finance lease/hire purchase liabilities	2,636	2,853	1,690	1,163	–
Secured bank loans	114,443	130,948	5,961	124,987	–
Trade and other payables (excluding unearned revenue)	42,841	42,841	42,808	33	–
Deferred consideration	89,954	105,245	40,823	64,422	–
Other loans payable	16	16	–	16	–
Derivative financial instruments					
Interest rate swaps used for hedging	866	866	476	390	–
	250,756	282,769	91,758	191,011	–

The periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur and expected to impact the profit or loss are consistent with the contractual maturities disclosed in the above table.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

Liquidity risk in relation to deferred consideration liabilities

There are critical accounting estimates and judgments in relation to deferred consideration liabilities as noted in Note 1(u)(iv). The estimates and judgments impact the amount of deferred consideration payable such that the final amount payable under acquisition agreements can be different from the estimated contractual cash flow amounts payable at the year-end reporting date. During the prior year, the Consolidated Entity restructured its future deferred consideration liabilities.

The significance of the restructure of deferred consideration to liquidity risk of the Consolidated Entity is that:

- the total amount payable for substantially all deferred consideration liabilities was capped at a comparable amount to the estimated liability at 30 June 2010;
- the payments of deferred consideration cannot be made earlier than the contractual payment dates in the original acquisition agreements;
- there is a reduction in the total cash element of deferred consideration payables through satisfying elements of deferred consideration through the issue of Enero Group Limited shares; and
- approximately 50% of the aggregate capped

payments are subject to the Consolidated Entity meeting certain hurdles in relation to financial performance and leverage ratio levels, ensuring sufficient liquidity before deferred consideration payments are made.

The Consolidated Entity has estimated the liability for future deferred consideration liabilities based on the achievement of the forecast targets by the relevant subsidiaries and also the Consolidated Entity. There is uncertainty around the actual payments that will be made in respect of the performance of the relevant subsidiaries and the Consolidated Entity forecast versus the targets. The remaining aggregate gross capped deferred consideration liability at 30 June 2012 is \$86,635,000 of which \$13,696,000 has been estimated as a future liability (which equates to a present value of expected future payments of \$13,538,000).

Of the remaining aggregate capped liability at 30 June 2012, \$72,940,000 will only be made if the Consolidated Entity reaches certain financial performance and leverage ratio targets. Actual future payments may be below the capped amounts; however, they may exceed the estimated liability.

There are no other significant uncertainties in the timing or amount of contractual liabilities.

Interest rate risk

Interest rate risk refers to the risk that the fair value of the future cash flows of financial instruments will fluctuate because of changes in market interest rates.

The Consolidated Entity has no significant interest-bearing assets. The Consolidated Entity's interest-rate risk arises from long-term borrowings; however, the Consolidated Entity has no borrowings at 30 June 2012. Borrowings issued at variable rates expose the Consolidated Entity to cash flow interest rate risk. Borrowings issued at fixed rates expose the Consolidated Entity to fair value interest rate risk. The Consolidated Entity's policy is to ensure that between 25% and 50% of its exposure to changes in interest rates on borrowings is on a fixed rate basis. This is achieved by entering into interest rate swaps.

Such interest rate swaps have the economic effect of converting borrowings from floating to fixed rates. Under the interest rate swaps, the Consolidated Entity agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts. Refer to Note 20 for details on the interest rate swap facility.

The impact of a change in interest rates by $\pm 1\%$ from the year end rates applicable to the loans and borrowings is set out in the cash flow sensitivity analysis for variable rate instruments for loan outstanding at 30 June 2011.

The Consolidated Entity repaid its borrowings in full during the current year and this analysis is not required at 30 June 2012.

Profile

At the reporting date, the interest rate profile of the Company's and the Consolidated Entity's interest-bearing financial instruments with interest rate risk was:

In thousands of AUD	Carrying amount	
	2012	2011
Variable rate instruments		
Secured bank loans	–	114,443
Cash and cash equivalents	21,401	18,262
Deposits	113	302

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Effect in thousands of AUD	Profit or loss		Equity	
	+100bp	-100bp	+100bp	-100bp
30 June 2011				
Variable rate instruments	(1,179)	1,179	–	–
Interest rate swap	274	(274)	(351)	(1,381)
Cash flow sensitivity (net)	(905)	905	(351)	(1,381)

Fair values*Fair values versus carrying amounts*

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

Consolidated In thousands of AUD	30 June 2012		30 June 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	21,401	21,401	18,262	18,262
Bank short-term deposits	113	113	302	302
Trade receivables	37,991	37,991	71,089	71,089
Derivative financial liabilities	–	–	(866)	(866)
Interest-bearing deposits	–	–	50	50
Trade and other payables	(25,247)	(25,247)	(42,841)	(42,841)
Secured bank loan	–	–	(114,443)	(114,443)
Finance lease liabilities	(367)	(367)	(951)	(951)
Hire purchase lease liabilities	(1,087)	(1,087)	(1,685)	(1,685)
Other loans payable	–	–	(16)	(16)
	32,804	32,804	(71,099)	(71,099)

The basis for determining the fair value is disclosed in Note 1(t).

Notes to the consolidated financial statements for the year ended 30 June 2012

25. Financial risk management/financial instruments (continued)

Fair value hierarchy

The Consolidated Entity did not have any financial instrument carried at fair value by valuation method at 30 June 2012. The table below analyses financial instruments carried at fair value by valuation method as 30 June 2011.

The different levels have been defined as follows:

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2:** inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).
- **Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In thousands of AUD	Level 1	Level 2	Level 3	Total
30 June 2011				
Derivative financial liabilities	–	(866)	–	(866)
	–	(866)	–	(866)

Capital management

The Consolidated Entity's key sources of capital are available committed facilities under the Cash Advance Facility and share capital. The Board seeks to maintain a balance between higher returns that might be possible with higher levels of gearing and the advantages afforded by a prudent capital position.

Under the terms of its Cash Advance Facility, the Consolidated Entity is required to maintain certain maximum capitalisation (book), maximum total leverage and minimum interest cover ratios. At 30 June 2012, the Consolidated Entity is in compliance with these requirements.

The Consolidated Entity is subject to restrictions on the payment of future dividends such that no dividends can be paid until after 30 September 2012, and then, paid only if certain leverage and deferred consideration payments have been met.

26. Commitments

Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

In thousands of AUD	2012	2011
Less than one year	6,227	12,996
Between one and five years	14,488	13,786
	20,715	26,782

The Consolidated Entity leases property under non-cancellable operating leases generally expiring in two to ten years. Leases generally provide the Consolidated Entity with a right of renewal, at which time terms are renegotiated. Some lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals typically are based on movements in the consumer price index.

Generally operating leases are subject to standard two to five year renewal terms, with no purchase option or escalation clauses included.

During the year ended 30 June 2012, \$9,790,000 was recognised as an expense in the income statement in respect of operating leases (2011: \$13,240,000).

27. Contingencies

Contingent liabilities

Indemnities

Indemnities have been provided to Directors and certain Executive Officers of the Company in respect to third parties arising from their positions, except where the liability arises out of conduct involving lack of good faith. No monetary limit has been applied to these agreements and there are no known obligations outstanding at 30 June 2012.

28. Controlled entities

Particulars in relation to controlled entities:

Name	Consolidated Entity interest	
	2012 %	2011 %
Parent entity		
Enero Group Limited		
Controlled entities		
AdPartners Group Pty Limited	100	100
— AdPartners Media Pty Limited	100	100
SC Division Pty Ltd	100	100
— Australian Business Theatre Pty Limited	100	100
— Australian Business Theatre (Hong Kong) Limited ⁽ⁱⁱ⁾	100	100
— ABT Creative Consulting Co Limited ^(xiv)	100	100
Brass Tacks Pty Limited	100	100
— Kaleidoscope Marketing Communications Pty Limited	100	100
CPR Communications and Public Relations Pty Limited	100	100
— Capital Policy and Trade Pty Limited	100	100
The Precinct Group Pty Limited	100	100
— Ross Barr & Associates Pty Ltd	100	100
ImageBox Group Pty Limited	—	51
Love Pty Limited	100	100
IDEAssociates Pty Limited	100	100
The Bailey Group NZ Ltd ⁽ⁱ⁾	100	100
Enero Group NZ Ltd ⁽ⁱ⁾	100	100
Barimos Pty Limited	—	100
— The Bailey Group Pty Limited	—	100
— Powerforce Total Merchandising Pty Limited	—	100
— Retail*Facts Pty Limited	—	100
— REL Field Marketing Australia Pty Limited	—	100
The Leading Edge Market Research Consultants Pty Limited	100	100
— The Leading Edge Market Research Consultants Limited ⁽ⁱⁱⁱ⁾	100	100
— Enero Group Singapore Pte Limited ^(vi)	100	100
ONAT Holdings Pty Limited	—	100
— Orchard National Pty Limited	—	100
— Brand Impact Pty Limited	—	100
— Retail Insight Australia Pty Limited	—	100
Media Zoo Pty Limited	99.1	99.1
Hotwire Australia Pty Limited	100	100
Counterpoint Marketing & Sales Pty Limited	100	100
Belong Pty Limited	100	100
— SEE Life Differently Holdings Pty Limited	100	100
— SEE Life Differently Pty Limited	100	100
Hotwire New Zealand Limited ⁽ⁱ⁾	100	100
Demonstration Plus Pty Limited	—	100
— 4Exposure Pty Limited	—	100
Demonstration Plus(NZ) Pty Limited ⁽ⁱ⁾	100	100
iMega Pty Ltd	100	100
— USA Online Pty Limited	100	100
— iMarketing Pty Limited	100	100
— Web Agency Pty Limited	100	100
— Freegroove Pty Limited	100	100
— Zearch Pty Limited	100	100
— ICM Division Pty Ltd	100	100
Ausrep Pty Ltd	—	100
City Public Relations Pty Limited	100	100
Jigsaw Strategic Research Pty Limited	100	100

Notes to the consolidated financial statements for the year ended 30 June 2012

28. Controlled entities (continued)

Name	Consolidated Entity interest	
	2012 %	2011 %
Belgiovane Williams Mackay Pty Ltd ^(xvii)	100	100
— Paterson Partners Adcafe Pty Limited	100	100
— Cox Inall Communications Pty Limited	100	100
— Pixel Dust Pty Limited	100	100
— I-Group BWM Pty Limited	100	100
DVL Smith Group Pty Ltd	100	100
— DVL Smith Group Limited ⁽ⁱⁱⁱ⁾	100	100
— DVL Smith Consulting Limited ^(v)	—	100
— DVL Smith Training Limited ^(v)	—	100
The Artel Group Pty Limited	—	100
SI Division Pty Ltd	100	100
FM Division Pty Ltd	100	100
ICD Division Pty Ltd	100	100
Found Agency Pty Limited	100	100
— Yield Media Pty Limited	100	100
Wardell R C Advertising Pty Ltd	100	100
Eastern Media Marketing Pty Ltd	100	100
Element Media Marketing Pty Ltd	100	100
Bellamy Hayden Pty Limited	100	100
— Bellamy Hayden SE Asia Pty Limited	100	100
— Vox Holdings Pty Limited	100	100
Auspoll Pty Limited	100	100
Domain Active Holdco Pty Limited	100	100
— Domain Active Pty Limited	100	100
Club Food Brokerage Pty Limited	—	100
Club Sales & Merchandising Pty Limited	—	100
Future House Pty Limited	100	100
— Geeksville Pty Limited	100	100
Crystal Storm Pty Limited	51	51
Marching Ants Pty Limited	100	100
ISS Marketing Pty Limited	—	100
ISS Marketing NZ Limited ⁽ⁱ⁾	100	100
BMF Holdco Pty Limited	100	100
BMF Advertising Pty Limited	100	100
Frank PR Australia Pty Limited	100	100
Photon (Hong Kong) Limited ⁽ⁱⁱ⁾	100	100
Naked Communications Australia Pty Limited	100	100
— Naked Breakfast Pty Limited	100	100
— Naked NZ Limited ⁽ⁱ⁾	100	100
Dark Blue Sea Pty Limited	100	100
— Dark Blue Sea Enterprises Pty Limited	100	100
— Fabulous Parking Pty Limited	100	100
— DarkBlue.com Pty Limited	100	100
— DBS Administration Pty Limited	100	100
— Fabulous.com Pty Limited	100	100
— Pageseeker.com Pty Limited	100	100
— Protopixel Pty Limited	100	100
— Roar.com Pty Limited	100	100
— Fabulous.com.au Pty Limited	100	100
— Yexa.com Pty Limited	100	100
— Whois Privacy Services Pty Limited	100	100
— Drop.com.au Pty Limited	100	100
— Yexa.com.au Pty Limited	100	100
— Domain Active Europe Limited ⁽ⁱⁱⁱ⁾	100	100
Resource Experience Limited ⁽ⁱⁱⁱ⁾	—	100
— RELSC Franco Limited ⁽ⁱⁱⁱ⁾	—	51
— REL Sales Consulting Limited ⁽ⁱⁱⁱ⁾	—	100

Name	Consolidated Entity interest	
	2012 %	2011 %
Lorica Group Limited ⁽ⁱⁱⁱ⁾	100	100
— Corporate Edge Group Limited ⁽ⁱⁱⁱ⁾	100	100
— Likemind Limited ⁽ⁱⁱⁱ⁾	—	100
— CLK MPL Limited ^(v)	—	100
— Lorica Group Trustees Limited ^(v)	—	100
Hotwire Public Relations Group Limited ⁽ⁱⁱⁱ⁾	100	100
— Hotwire Public Relations GMBH ^(vii)	100	100
— Hotwire Public Relations SARL ^(viii)	100	100
— Hotwire Public Relations SL ^(ix)	100	100
— Hotwire Public Relations SRL ^(x)	100	100
— Hotwire Public Relations Limited ⁽ⁱⁱⁱ⁾	100	100
— Skywrite Communications Limited ⁽ⁱⁱⁱ⁾	100	100
— 33 Digital Limited ⁽ⁱⁱⁱ⁾	100	100
HyperNaked Limited ⁽ⁱⁱⁱ⁾	100	100
— Naked Ventures Limited ⁽ⁱⁱⁱ⁾	100	100
— Hyper Happen Limited ⁽ⁱⁱⁱ⁾	100	100
— Naked Communications Limited ⁽ⁱⁱⁱ⁾	100	100
— Ne Kid SAS ^(viii)	100	100
— Naked Communications BV ^(xi)	100	100
— Naked Communications AS ^(xii)	100	100
— Naked Communications Sweden AB ^(xv)	100	100
— Naked Communications ApS ^(xvi)	92.5	92.5
— Naked Communications Holdings Inc ^(iv)	100	100
— Naked New York LLC ^(iv)	100	100
— Naked Communications Inc ^(xiii)	100	100
Enero Group UK Holdings Pty Limited	100	100
Enero Group UK Limited ⁽ⁱⁱⁱ⁾	100	100
Frank PR Limited ⁽ⁱⁱⁱ⁾	100	100
The Bailey Group UK Limited ⁽ⁱⁱⁱ⁾	—	100
Retail Insight Limited ⁽ⁱⁱⁱ⁾	—	100
Enero Group (US) Pty Limited	100	100
Enero Group (US) Inc. ^(iv)	100	100
OB Media LLC ^(iv)	51	51
The Leading Edge Research & Strategy Consultants LLC ^(iv)	100	100
Hotwire Public Relations Group LLC ^(iv)	100	100

(i) Companies incorporated and carrying on a business in New Zealand.

(ii) Companies incorporated and carrying on a business in Hong Kong.

(iii) Companies incorporated and carrying on a business in the United Kingdom.

(iv) Companies incorporated and carrying on a business in the United States of America.

(v) Companies incorporated in the United Kingdom and dormant.

(vi) Enero Group Singapore Pte Limited was incorporated and carries on a business in Singapore.

(vii) Hotwire Public Relations GmbH was incorporated and carries on a business in Germany.

(viii) Companies incorporated and carrying on a business in France.

(ix) Hotwire Public Relations SL was incorporated and carries on a business in Spain.

(x) Hotwire Public Relations SRL was incorporated and carries on a business in Italy.

(xi) Naked Communications BV was incorporated and dormant in the Netherlands.

(xii) Naked Communications AS was incorporated and dormant in Norway.

(xiii) Naked Communications Inc. was incorporated and carries on a business in Japan.

(xiv) ABT Creative Consulting Co Limited was incorporated and dormant in China.

(xv) Naked Communications Sweden AB was incorporated and carries on a business in Sweden.

(xvi) Naked Communications ApS was incorporated and carries on a business in Denmark.

(xvii) Although only 51% of the issued capital was acquired by the Company, the option tied to the remaining 49% non-controlling interest requires 100% of the earnings and statement of financial position to be included in the Consolidated Entity's statement of financial position and income statement.

Notes to the consolidated financial statements
for the year ended 30 June 2012

29. Disposal of subsidiaries

2012

On 31 May 2012, the Consolidated Entity disposed of the Image Box business for nominal consideration. The transaction was carried out on an arm's length basis and consideration was considered to be at fair value. The Consolidated Entity recognised a loss on sale of \$350,000 in the income statement for the year ended 30 June 2012. The gain net of tax in the income statement was \$883,000 after a non-cash benefit of \$1,233,000 to income tax was recognised.

On 29 June 2012, the Consolidated Entity disposed of the ISS Marketing business for nominal consideration. The transaction was carried out on an arm's length basis and consideration was considered to be at fair value. The Consolidated Entity recognised a loss on sale of \$151,000 in the income statement for the year ended 30 June 2012. The gain net of tax in the income statement was \$3,805,000 after a non-cash benefit of \$3,956,000 to income tax was recognised.

Assets and liabilities and cash flow of disposed entities

The major classes of assets and liabilities of the disposed group are as follows:

In thousands of AUD	Carrying amounts
Assets	
Cash and cash equivalents	395
Trade and other receivables	1,483
Other assets	169
Plant and equipment	226
Intangible assets	394
Deferred tax assets	302
Total assets disposed	2,969
Trade and other payables	1,724
Interest-bearing loans and borrowings	51
Provisions	281
Employee benefits	222
Deferred tax liabilities	248
Total liabilities disposed	2,526
Net assets attributable to disposed entities	443

Loss on disposal

In thousands of AUD	
Consideration received or receivable (net of disposal costs)	(58)
Less net assets disposed of	(443)
Loss on disposal before income tax	(501)
Income tax benefit	5,189
Profit on disposal after income tax	(4,688)

Net cash inflow on disposal

In thousands of AUD	
Total consideration	(38)
Less cash and cash equivalents balance disposed of	(395)
Reflected in the consolidated statement of cash flows	(433)

For details relating to disposals of discontinued operations refer to Note 7 Discontinued Operations.

2011

On 22 December 2010, the Consolidated Entity entered into a sale agreement to dispose of the businesses Be Interactive, C4 Communications, Returnity and Messagenet for a consideration of \$75,300,000 plus a deferred consideration arrangement that expired on 30 June 2011. On 22 December 2010, the Consolidated Entity's control over these businesses passed to the acquirer. The proceeds from the disposal of these businesses was received on 12 January 2011. The Consolidated Entity recognised a loss on sale of \$4,272,000 in the income statement for the year ended 30 June 2011.

On 22 December 2010, the Consolidated Entity also resolved to dispose of the Sledge and Findology businesses for nominal consideration. The transactions were considered to be at arm's length. During the year, an impairment charge of \$17,195,000 was recognised in the income statement in relation to these assets. The sales were completed on 13 January 2011 and 14 January 2011 respectively and at such time the Consolidated Entity recognised a further loss on sale of \$2,531,000 primarily in relation to the respective amounts held in the foreign currency translation reserve at the date of sale.

An income tax benefit of \$3,380,000 was recognised in the income statement in relation to the above disposals of subsidiaries.

Assets and liabilities and cash flow of disposed entities

The major classes of assets and liabilities of the disposed group are as follows:

In thousands of AUD	Carrying amounts
Assets	
Cash and cash equivalents	2,068
Trade and other receivables	6,563
Other assets	924
Plant and equipment	2,046
Intangible assets	75,014
Deferred tax assets	906
Total assets disposed	87,521
Trade and other payables	4,885
Interest-bearing loans and borrowings	657
Provisions	141
Employee benefits	571
Deferred tax liabilities	1,199
Total liabilities disposed	7,453
Net assets attributable to disposed entities	80,068

Loss on disposal

In thousands of AUD	
Consideration received or receivable	75,723
Less net assets disposed of	(80,068)
Less foreign currency translation reserve recognised in income statement	(2,458)
Loss on disposal before income tax	(6,803)
Income tax benefit	3,380
Loss on disposal after income tax	(3,423)

Net cash inflow on disposal

In thousands of AUD	
Total consideration	75,723
Less cash and cash equivalents balance disposed of	(2,068)
Less settlement of liability with subsidiary on disposal	(484)
Reflected in the consolidated statement of cash flows	73,171

Notes to the consolidated financial statements for the year ended 30 June 2012

30. Reconciliation of cash flows from operating activities

In thousands of AUD	Note	2012	2011
(i) Reconciliation of cash			
For the purpose of the statements of cash flows, cash includes cash on hand and at bank and short-term deposits at call, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the statement of financial position as follows:			
Cash assets	9	21,514	18,564
(ii) Reconciliation of loss after income tax to net cash provided by operating activities			
Loss after income tax		(142,623)	(59,738)
Loss/(Profit) on sale of non-current assets		227	(314)
Share-based payments expense/(benefit)		1,841	(770)
Add/(less) non-cash items:			
Depreciation and amortisation		4,822	8,180
Release of lease incentive/rent straight-line		(370)	(836)
Lease make good amortisation		338	504
Release of lease make good provision		(613)	(685)
Equity-settled bonus		34	75
Present value interest charges on deferred consideration of acquisitions		4,292	9,106
Amortisation of identifiable intangibles		3,074	7,116
Loss on disposal of subsidiaries		50,204	6,803
Impairment loss		133,357	87,481
Fair value gain on deferred consideration liability		(50,760)	(29,739)
Decrease in income taxes receivable (net)		7,018	1,813
(Increase)/decrease in deferred tax assets and liabilities		(2,556)	3,568
Net cash provided by operating activities before change in assets and liabilities		8,285	32,564
Changes in assets and liabilities adjusted for the effects of purchase and disposal of controlled entities during the financial year:			
(Increase)/decrease in receivables		356	12,526
(Increase)/decrease in work in progress		(5,403)	(1,004)
(Increase)/decrease in prepayments		(241)	740
(Increase)/decrease in other assets		2,330	1,064
Increase/(decrease) in payables		(506)	(12,695)
Increase/(decrease) in unearned revenue		5,003	(1,260)
Increase/(decrease) in provisions		(922)	(5,790)
Net cash from operating activities		8,902	26,145

31. Parent entity disclosures

As at, and throughout, the financial year ended 30 June 2012, the parent Company of the Consolidated Entity was Eneo Group Limited.

In thousands of AUD	The Company	
	2012	2011
Result of the parent entity		
Loss for the period	(238,147)	(76,293)
Other comprehensive income	606	1,459
Total comprehensive income for the period	(237,541)	(74,834)
Financial position of the parent entity at year end		
Current assets	21,239	17,982
Total assets	217,975	523,017
Current liabilities	17,935	30,962
Total liabilities	34,665	116,115
Total equity of the parent entity comprising of:		
Share capital	489,391	477,284
Option reserve	12,881	11,039
Hedging reserve	—	(606)
Accumulated losses	(318,962)	(80,815)
Total equity	183,310	406,902

Parent entity guarantees in respect of debts of its subsidiaries

The parent entity has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of its subsidiaries.

Further details of the Deed of Cross Guarantee, and the subsidiaries subject to the deed, are disclosed in Note 34 Deed of Cross Guarantee.

Contingent liabilities**Indemnities**

Indemnities have been provided to Directors and certain Executive Officers of the Company in respect to third parties arising from their positions, except where the liability arises out of conduct involving lack of good faith. No monetary limit applied to these agreements and there are no known obligations outstanding at 30 June 2012.

32. Subsequent events

On 10 August 2012, the Consolidated Entity announced and completed the sale of its 51% interest in subsidiary Belgiovane Williams Mackay (BWM) for \$7,500,000 in cash consideration. Concurrent to the sale process, the remaining deferred consideration liabilities to the vendors of BWM were also settled. The impacts of this transaction have been brought to account in the financial statements for the year ended 30 June 2012. Refer to Note 14 Disposal group classified as held for sale for further details. Following the payment of the BWM deferred consideration payable, the total estimated remaining capped cash and equity settled deferred consideration amount is \$3,107,000.

Also on 10 August 2012, the Consolidated Entity also reduced its debt facility arrangements with its lender ANZ such that the debt facility is \$10,000,000. This facility continues to be undrawn at the date of this report.

Other than the matters discussed above, there has not arisen, in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

33. Deed of Cross Guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly owned subsidiaries listed below are relieved from the *Corporations Act 2001* requirements for the preparation, audit and lodgement of financial statements, and a Directors' Report.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The Leading Edge Market Research Consultants Pty Limited, BMF Holdco Pty Limited and Belong Pty Limited became party to the Deed on 25 June 2008. Counterpoint Marketing and Sales Pty Ltd became party to the Deed on 29 June 2010. In connection with the disposal of the Field Marketing division on 30 November 2011, Barimos Pty Limited, The Bailey Group Pty Limited and Demonstration Plus Pty Limited left the Deed of Cross Guarantee. Refer Note 7 Discontinued operations for further details.

Notes to the consolidated financial statements for the year ended 30 June 2012

33. Deed of Cross Guarantee (continued)

A consolidated income statement and consolidated statement of financial position, comprising the Company and controlled entities which are party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2012 is set out as follows:

Summarised income statement and retained profits

In thousands of AUD	2012	2011
Loss before tax	(233,033)	(73,632)
Income tax benefit/(expense)	476	(627)
Loss after tax	(232,557)	(74,259)
Accumulated losses at beginning of year	(74,100)	159
Retained earnings relating to entities disposed during the year	(12,442)	–
Accumulated losses at end of year	(319,099)	(74,100)
Attributable to:		
Equity holders of the Company	(232,557)	(74,259)
Loss for the period	(232,557)	(74,259)

Statement of financial position

In AUD	2012	2011
Assets		
Cash and cash equivalents	12,615	4,304
Trade and other receivables	15,175	24,256
Income tax receivable	–	6,394
Other assets	2,568	1,993
Total current assets	30,358	36,947
Receivables	103,750	170,886
Other financial assets	19,737	156,124
Deferred tax assets	5,073	2,933
Plant and equipment	2,689	4,825
Other assets	249	98
Intangible assets	50,171	177,461
Total non-current assets	181,669	512,327
Total assets	212,027	549,274
Liabilities		
Trade and other payables	12,790	16,301
Interest-bearing loans and borrowings	535	1,257
Employee benefits	2,058	3,006
Provision	131	905
Deferred consideration	11,929	34,867
Total current liabilities	27,443	56,336
Interest-bearing loans and borrowings	440	49,565
Employee benefits	523	682
Provisions	333	605
Deferred consideration	115	28,469
Total non-current liabilities	1,411	79,321
Total liabilities	28,854	135,657
Net assets	183,173	413,617
Equity		
Issued capital	489,391	477,284
Reserves	12,881	10,433
Accumulated losses	(319,099)	(74,100)
Total equity	183,173	413,617

Directors' Declaration

1. In the opinion of the Directors of Eneo Group Limited (**the Company**):
 - (a) the consolidated financial statements and notes, set out on pages 27 to 86 and the Remuneration report in the Directors' Report, set out on pages 16 to 26, 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 (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe the Company and entities identified in Note 33 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 between the Company and those entities pursuant to ASIC Class Order 98/1418.
3. The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2012 pursuant to section 295A of the *Corporations Act 2001*.
4. The Directors draw attention to Note 1(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Dated at Sydney this 3rd day of September 2012.

Signed in accordance with a resolution of the Directors:



John Porter

Chairman

Independent Auditor's Report to the members of the Enero Group Limited



Independent auditor's report to the members of Enero Group Limited

Report on the financial report

We have audited the accompanying financial report of Enero Group Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2012, and consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 33 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or 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 control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1(a) the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, 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 control relevant to the entity's preparation of the financial report that gives a true and fair view 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 control. 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 performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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*.

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group'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 1.

Report on the remuneration report

We have audited the Remuneration Report included in pages 16 to 26 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 auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Eneo Group Limited for the year ended 30 June 2012, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

A handwritten signature in black ink, appearing to read 'K. Leighton'.

Kevin Leighton
Partner

Sydney

3 September 2012

Lead Auditor's independence declaration
under section 307C of the Corporations Act 2001



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Enero Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2012 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

A handwritten signature in black ink, appearing to be 'K. Leighton'.

Kevin Leighton

Sydney

3 September 2012

ASX additional information

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below. The shareholder information set out below was applicable at 20 August 2012.

Substantial shareholders

The number of ordinary shares held by substantial shareholders and their associates is set out below:

Shareholder	Number
RG Capital Multimedia Limited	20,823,268
Intelligent Investor Funds Pty Limited	5,256,694

Unquoted equity securities

As at 20 August 2012 there were 82,870 options granted over unissued ordinary shares in the Company. Details of holders of 20% or more of those options are set out in the Directors' Report.

Voting rights

Ordinary shares – refer to Note 24 Capital and reserves.

Options – refer to Note 21 Employee benefits and the Remuneration Report included in the Directors' Report.

Distribution of equity security holders

Range	Number of equity security holders	
	Ordinary shares	Options
1–1,000	1,516	29
1,001–5,000	567	11
5,001–10,000	220	3
10,001–100,000	282	1
100,001 and over	92	–

The number of shareholders holding less than a marketable parcel of ordinary shares is 1,499.

Twenty largest shareholders

Rank	Name	Units	% of issued capital
1	National Nominees Limited	8,396,468	9.81
2	Equitas Nominees Pty Limited <2946694 A/C>	6,759,020	7.90
3	Bell Potter Nominees Ltd <BB Nominees A/C>	6,711,104	7.84
4	Citicorp Nominees Pty Limited	6,320,300	7.38
5	RG Capital Multimedia Limited	4,511,945	5.27
6	J P Morgan Nominees Australia Limited	4,113,435	4.81
7	Mr. Jeremy Philips	3,997,023	4.67
8	Equitas Nominees Pty Limited <821471 A/C>	3,703,272	4.33
9	Bond St Custodians Limited <Officium Special Situat A/C>	2,653,476	3.10
10	Felice Testini <GAT Family A/C>	1,632,000	1.91
11	ANZ Banking Group Limited ANZ Lending Services A/C	1,498,441	1.75
12	J P Morgan Nominees Australia Limited <Cash Income A/C>	1,251,467	1.46
13	Fitel Nominees Limited	1,111,111	1.30
14	UBS Nominees Pty Limited	1,098,556	1.28
15	Asia Union Investments Pty Limited	900,000	1.05
16	ABN Amro Clearing Sydney Nominees Pty Ltd <Custodian A/C>	804,076	0.94
17	Henawall Pty Limited	722,000	0.84
18	Carinya Media Management Pty Ltd	716,667	0.84
19	Lean Holdings Pty Ltd <B4 Family A/C>	684,903	0.80
20	Enero Group Limited <Enero Employee A/C>	657,858	0.77
Total		58,243,122	68.04

ASX additional information

Equity securities in escrow

Date escrow period ends	Number of equity securities in escrow
30 September 2012	352,500
30 June 2013	1,369,378
30 September 2013	20,834
30 June 2014	1,825,837
Total	3,568,548

All equity securities in escrow are ordinary shares.

Corporate Directory

Company Secretary

Eleni North

Principal Registered Office

Enero Group Limited
Level 3, 1 Buckingham Street
Surry Hills NSW 2010 Australia
Telephone: +61 2 8213 8000
Facsimile: +61 2 8213 3030

Share Registry

Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
Sydney NSW 2000 Australia
Telephone: 1300 855 080
Outside Australia: +61 3 9415 4000
Facsimile: +61 2 8234 5050

Securities Exchange

The Company is listed on the Australian Securities Exchange (EGG).
The home exchange is Sydney.

Other Information

Enero Group Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

Solicitors

Gilbert + Tobin
2 Park Street
Sydney NSW 2000 Australia

Auditors

KPMG
10 Shelley St
Sydney NSW 2000 Australia



www.enerogroup.com

