Enero Group Limited

ABN 97 091 524 515

Half Year Report

Appendix 4D

Half Year ended 31 December 2017

Results for announcement to the market

Enero Group Limited (the "Company") and its controlled entities (the "Group") results for announcement to the market are detailed below.

The current reporting period is 1 July 2017 to 31 December 2017.
The previous corresponding reporting period is 1 July 2016 to 31 December 2016.

Key information

In thousands of AUD

	31 December 2017	31 December 2016	% Change	Amount Change
Gross revenues from ordinary activities	93,020	89,799	3.59%	3,221
Profit after tax attributable to members	3,773	2,303	63.83%	1,470
Profit for the period attributable to members	3,773	2,303	63.83%	1,470

Dividends	Amount per security	Franked amount per security	Record date	Payment date
Interim dividend	1.5 cents	1.5 cents	1 March 2018	15 March 2018

At the date of this report, there are no dividend reinvestment plans in operation.

The remainder of the information requiring disclosure to comply with listing rule 4.2A.3 is contained in the attached financial report for the half year ended 31 December 2017 and the additional information set out below.

Additional Information

	Current period	Previous corresponding period
Net tangible asset backing per ordinary share	0.29	0.30

Explanation of results

Please refer to the attached interim financial report for the half year ended 31 December 2017 and Market Presentation for commentary and further information with respect to the results.

Enero Group Limited

and its controlled entities

ABN 97 091 524 515

Interim Financial Report

For the half year ended 31 December 2017

Contents

Enero Group Limited

Financial Report - half year ended 31 December 2017

Directors' Report

The directors of Enero Group Limited (the "Company") present their report, together with the consolidated financial statements of the Group, being the Company and its controlled entities, for the six months ended 31 December 2017 and the review report thereon.

Directors

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

John Porter – Independent Non-Executive Chairman
John was appointed as Chairman and Non-Executive Director of the Company on 24 April 2012. John is the Chairman of the Remuneration and Nomination Committee.

Matthew Melhuish – CEO and Executive Director
Matthew was appointed Chief Executive Officer and Executive Director of the Company on 16 January 2012.

Susan McIntosh – Non-Executive Director
Susan was appointed as a Non-Executive Director of the Company on 2 June 2000. Susan is a member of the Audit and Risk Committee, and the 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 the Deputy Chairman of the Board of Directors, Chairman of the Audit and Risk Committee and a member of the Remuneration and Nomination Committee.

Anouk Darling – Independent Non-Executive Director
Anouk was appointed as a Non-Executive Director of the Company on 6 February 2017. Anouk is a member of the Audit and Risk Committee.

Principal activities

The principal activities of the Group 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.

Review of operations for the six months ended 31 December 2017:

Reconciliation of Operating EBITDA to Statutory profit after tax:

In thousands of AUD	6 months to 31 December 2017	6 months to 31 December 2016
Net revenue	47,774	51,246
Operating EBITDA	5,694	4,856
Depreciation and amortisation expenses	(1,500)	(1,478)
Net finance costs	(147)	(1)
Gain on sale of business asset (i)	627	_
Acquisition costs	_	(156)
Statutory profit before tax	4,674	3,221
Income tax expense	(653)	(796)
Statutory profit after tax	4,021	2,425

(i) On 31 October 2017, the Group sold Dark Blue Sea's (a subsidiary) domain registrar asset for consideration of $627,000. As this asset was previously impaired, a gain on sale was recognised in the interim income statement during the current reporting period.

Directors' Report (continued)

Basis of preparation

This report includes Operating EBITDA, a measure used by the Directors and management in assessing the ongoing performance of the Group. Operating EBITDA is a non-IFRS measure and has not been audited or reviewed.

Operating EBITDA is calculated as profit before interest, taxes, depreciation, amortisation, impairment, gain on sale of business asset and acquisition costs. Operating EBITDA, reconciled in the above table, is the primary measure used by management and the Directors in assessing the performance of the Group. It provides information on the Group's cash flow generation excluding significant transactions and non-cash items which are not representative of the Group's ongoing operations.

Share Appreciation Rights issued

During the half year ended 31 December 2017, a total of 5,000,000 Share Appreciation Rights (31 December 2016: Nil) were issued to senior employees of the group under the existing Share Appreciation Rights plan.

Shares issued on exercise of Share Appreciation Rights

During the half year ended 31 December 2017, a total of 297,184 shares (31 December 2016: 1,636,718) were transferred from a trust account held by the Company to the employees of the Group on exercise of Share Appreciation Rights.

As at 31 December 2017, the Company has 1,294,301 shares (31 December 2016: 1,591,485 shares) in a trust account held by the Company for future use against long-term incentive equity schemes as and when required.

Acquisitions

2017

Subsequent to the interim reporting date, on 2 February 2018, the Group acquired 100% of the issued capital of Orchard Marketing Pty Limited, a creative and technology agency with offices in Sydney and New York, net revenue for the financial year ended 30 June 2017 of $12 million and 74 full time staff. The purchase price was an initial cash payment of $5 million in addition to contingent consideration payments tied to EBIT targets through to the period 30 June 2021. The agreement is subject to a total purchase price cap of $27 million. Refer to note 10 *Subsequent events* for details.

2016

On 29 September 2016 the Group, via its subsidiary Hotwire Public Relations Group LLC, acquired the business net assets of Eastwick Communications, a USA based independent technology public relations agency with offices in San Francisco and New York. The purchase price was an upfront cash payment of US$5 million (A$6.3 million) in addition to contingent consideration payments tied to EBIT targets through to the period 30 June 2020. Refer to note 8 *Acquisition* for details.

Dividend

Subsequent to the interim reporting date, the Directors have declared an interim dividend, with respect to ordinary shares, of 1.5 cents per share, fully franked. The interim dividend will have a record date of 1 March 2018 and a payment date of 15 March 2018.

Subsequent Events

For events subsequent to the interim reporting date, refer to note 10 *Subsequent events*.

Lead auditor's independence declaration

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 21 and forms part of the directors' report for the half year ended 31 December 2017.

Rounding off

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and, in accordance with that Class Order, amounts in this Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is signed in accordance with a resolution of the directors.

Dated at Sydney this 15th day of February 2018.

John Porter
Chairman

Enero Group Limited

Financial Report - half year ended 31 December 2017

Consolidated interim income statement
for the six months ended 31 December 2017

In thousands of AUD	Note	2017	2016
Gross revenue		93,020	89,799
Directly attributable costs of sales		(45,246)	(38,553)
Net revenue		47,774	51,246
Other income		90	103
Employee expenses		(33,606)	(36,834)
Occupancy costs		(3,207)	(3,886)
Travel expenses		(647)	(665)
Communication expenses		(1,016)	(1,020)
Compliance expenses		(550)	(736)
Depreciation and amortisation expense		(1,500)	(1,478)
Administration expenses		(3,144)	(3,352)
Acquisition costs		–	(156)
Gain on sale of business asset	9	627	–
Finance income		111	127
Finance costs		(258)	(128)
Profit before income tax		4,674	3,221
Income tax expense	3	(653)	(796)
Profit for the period		4,021	2,425
Attributable to:			
Equity holders of the parent		3,773	2,303
Non-controlling interests		248	122
		4,021	2,425
Earnings per share			
Basic earnings per share (AUD cents)	4	4.48	2.77
Diluted earnings per share (AUD cents)	4	4.45	2.70

The condensed notes on pages 10 to 19 are an integral part of these consolidated interim financial statements.

Consolidated interim statement of comprehensive income
for the six months ended 31 December 2017

In thousands of AUD	Note	2017	2016
Profit for the period		4,021	2,425
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		1,466	(3,277)
Total items that may be reclassified subsequently to profit or loss		1,466	(3,277)
Other comprehensive income/(loss) for the period, net of tax		1,466	(3,277)
Total comprehensive income/(loss) for the period		5,487	(852)
Attributable to:			
Equity holders of the parent		5,243	(997)
Non-controlling interests		244	145
		5,487	(852)

The condensed notes on pages 10 to 19 are an integral part of these consolidated interim financial statements.

Enero Group Limited

Financial Report - half year ended 31 December 2017

Consolidated interim statement of changes in equity
for the six months ended 31 December 2017

In thousands of AUD	Share capital	Retained profits / (Accumulated losses)	Profit appropriation reserve	Share based payment reserve	Reserve change in ownership interest in subsidiary	Foreign currency translation reserve	Total	Non-controlling interests	Total equity
	Attributable to owners of the Company								
Opening balance at 1 July 2016	491,576	(375,243)	–	13,499	(1,417)	(19,188)	109,227	2,032	111,259
Profit for the period	–	2,303	–	–	–	–	2,303	122	2,425
Other comprehensive income/(loss) for the period net of tax	–	–	–	–	–	(3,300)	(3,300)	23	(3,277)
Total comprehensive income for the period	–	2,303	–	–	–	(3,300)	(997)	145	(852)
Transactions with owners recorded directly in equity:									
Shares issued to employees on exercise of Share Appreciation Rights	2,013	–	–	(2,013)	–	–	–	–	–
Dividends paid to equity holders	–	–	–	–	–	–	–	(438)	(438)
Share based payment expense	–	–	–	208	–	–	208	–	208
Closing balance at 31 December 2016	493,589	(372,940)	–	11,694	(1,417)	(22,488)	108,438	1,739	110,177
Opening balance at 1 July 2017	96,389	7,030	12,443	11,857	(1,417)	(24,049)	102,253	704	102,957
Profit for the period	–	3,773	–	–	–	–	3,773	248	4,021
Other comprehensive income/(loss) for the period net of tax	–	–	–	–	–	1,470	1,470	(4)	1,466
Total comprehensive income for the period	–	3,773	–	–	–	1,470	5,243	244	5,487
Transactions with owners recorded directly in equity:									
Shares issued to employees on exercise of Share Appreciation Rights	267	–	–	(267)	–	–	–	–	–
Dividends paid to equity holders	–	–	–	–	–	–	–	(264)	(264)
Share based payment expense	–	–	–	258	–	–	258	–	258
Closing balance at 31 December 2017	96,656	10,803	12,443	11,848	(1,417)	(22,579)	107,754	684	108,438

The condensed notes on pages 10 to 19 are an integral part of these consolidated interim financial statements.

Consolidated interim statement of financial position
as at 31 December 2017

In thousands of AUD	Note	31-Dec-2017	30-Jun-2017
Assets			
Cash and cash equivalents		38,863	32,512
Trade and other receivables		17,653	19,994
Other assets		2,646	4,251
Income tax receivable		–	70
Total current assets		59,162	56,827
Deferred tax assets		1,922	1,735
Plant and equipment		5,958	6,899
Other assets		156	156
Intangible assets	5	84,053	83,134
Total non-current assets		92,089	91,924
Total assets		151,251	148,751
Liabilities			
Trade and other payables		27,747	26,568
Contingent consideration payable		–	4,512
Interest-bearing loans and borrowings		1,387	1,352
Employee benefits		2,576	2,772
Income tax payable		730	512
Provisions		239	18
Total current liabilities		32,679	35,734
Contingent consideration payable		5,652	5,631
Interest-bearing loans and borrowings		1,214	1,915
Employee benefits		633	661
Provisions		2,635	1,853
Total non-current liabilities		10,134	10,060
Total liabilities		42,813	45,794
Net assets		108,438	102,957
Equity			
Issued capital		96,656	96,389
Other reserves		(12,148)	(13,609)
Profit appropriation reserve		12,443	12,443
Retained profits		10,803	7,030
Total equity attributable to equity holders of the parent		107,754	102,253
Non-controlling interests		684	704
Total equity		108,438	102,957

The condensed notes on pages 10 to 19 are an integral part of these consolidated interim financial statements.

Enero Group Limited

Financial Report - half year ended 31 December 2017

Consolidated interim statement of cash flows

for the six months ended 31 December 2017

In thousands of AUD	Note	2017	2016
Cash flows from operating activities			
Cash receipts from customers		105,174	98,791
Cash paid to suppliers and employees		(93,383)	(92,576)
Cash generated from operations		11,791	6,215
Interest received		111	126
Income taxes paid		(562)	(959)
Interest paid		(110)	(52)
Net cash from operating activities		11,230	5,330
Cash flows from investing activities			
Proceeds from disposal of non-current assets		1	5
Acquisition of plant and equipment		(348)	(1,708)
Contingent consideration paid		(4,492)	–
Consideration from sale of business asset		627	–
Acquisition of a business, net of cash acquired	8	–	(6,328)
Net cash used in investing activities		(4,212)	(8,031)
Cash flows from financing activities			
Finance lease payments		(666)	(142)
Dividends paid to non-controlling interests in controlled entities		(264)	(438)
Net cash used in financing activities		(930)	(580)
Net increase/(decrease) in cash and cash equivalents		6,088	(3,281)
Effect of exchange rate fluctuations on cash held		263	(441)
Cash and cash equivalents at 1 July		32,512	37,620
Cash and cash equivalents at 31 December		38,863	33,898

The condensed notes on pages 10 to 19 are an integral part of these consolidated interim financial statements.

Condensed notes to the consolidated interim financial statements
for the six months ended 31 December 2017

1. Statement of significant accounting policies

a. Reporting entity

Enero Group Limited (the "Company") is a company domiciled in Australia. The consolidated interim financial report of the Company for the six months ended 31 December 2017 comprises the Company and its subsidiaries (together referred to as the "Group").

The consolidated annual financial report of the Group as at and for the year ended 30 June 2017 is available at www.enero.com.

b. Statement of compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134: Interim Financial Reporting and the Corporations Act 2001 and with IAS 34: Interim Financial Reporting.

The consolidated interim financial report does not include all of the information required for a full annual financial report and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2017.

The consolidated interim financial report was approved by the Board of Directors on 15 February 2018.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and, in accordance with that Class Order, amounts in this financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

c. Significant accounting policies

The accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated annual financial report as at and for the year ended 30 June 2017.

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 2017, and have not been applied in preparing these consolidated interim financial statements. None of these are expected to have a significant effect on the Group's financial statements, except for:

- AASB 9 Financial Instruments, which becomes mandatory for the Group's 2019 consolidated financial statements;
- AASB 15 Revenue from Contracts with customers, which becomes mandatory for the Group's 2019 consolidated financial statements; and
- AASB 16 Leases, which becomes mandatory for the Group's 2020 consolidated financial statements.

AASB 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and liabilities and includes a forward-looking 'expected loss' impairment model and a substantially changed approach to hedge accounting.

The Group has undertaken an assessment of the impact of AASB 9. The Standard is not expected to have a material impact on the transactions and balances when it is first adopted for the year ended 30 June 2019 as:

- The Group does not believe the new classification requirements would impact financial assets and financial liabilities which are already managed on a fair value basis; and
- The Group has historically had a low credit risk exposure in relation to trade receivables with less than 1% impaired annually.

1. Statement of significant accounting policies (continued)

The Group plans to take advantage of the exemption allowing it not to restate comparative information for the prior periods with respective to classification and measurement (including impairment) charges. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of AASB 9 will generally be recognised in retained earnings and reserves as at 1 July 2018.

AASB 15 Revenue from Contracts with Customers replaces all current guidance on revenue recognition from contracts with customers. It requires identification of discrete performance obligations within a transaction and an associated transaction price allocation to these obligations. Revenue is recognised upon satisfaction of these performance obligations, which occur when control of the services are transferred to the customer.

Revenue received for a contract that includes a variable amount is subject to revised conditions for recognition, whereby it must be highly probable that no significant reversal of the variable component may occur.

The Group has undertaken an assessment of the existing customer contracts and the impact of AASB 15. The Standard is not expected to have a material impact on the transactions and balances when it is first adopted for the year ended 30 June 2019 as:

- The Group's identification of performance obligations under contracts is similar to the existing methodology;
- The Group's rendering of services is able to be allocated at stand-alone selling prices; and
- The timing of revenue recognition is expected to be similar to the existing stage of completion method as performance obligations to clients under retainer or project basis are satisfied throughout the rendering of such services.

The Group will apply the standard retrospectively, using the cumulative catch-up method to recognise the difference in retained earnings and reserves as at 1 July 2018.

AASB 16 Leases sets out a model for identifying lease arrangements and will result in the recognition of almost all leases in the statement of financial position. The new standard requires the recognition of a 'right of use' asset and a related lease liability, being the present value of future lease payments. This will result in an increase in the recognised assets and liabilities in the statement of financial position as well as a change in expense recognition, with interest and depreciation replacing operating lease expense.

The Group will apply the standard retrospectively, using the modified retrospective method, recognising the cumulative effect of initially applying the standard in retained earnings and reserves as at 1 July 2019.

The Group continues to review of all its existing leases to quantify the impact of AASB 16. However, based on the Group's preliminary assessment, the standard's likely impact on first-time adoption is:

- there will be a material increase in lease assets and financial liabilities recognised in the statement of financial position;
- operating EBITDA and EBIT in the consolidated income statement will be higher as the implicit interest in lease payments will be presented as part of finance costs and the amortisation of the right of use asset will be presented as amortisation rather than being included as rental costs in operating expenses;
- operating cash outflows will be lower and financing cash outflows will be higher in the statement of cash flows as principal repayments on all lease liabilities will now be included in financing activities rather than operating activities.

As at the date of this report, the Group does not intend to early adopt the above named standards.

1. Statement of significant accounting policies (continued)

d. Estimates

The preparation of this report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. These 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 judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

In preparing this report, the significant judgements made by management in applying the Group's accounting policies and the key sources of uncertainty in estimation were the same as those that applied to the consolidated annual financial report of the Group as at and for the year ended 30 June 2017.

Measurement of fair value

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques 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. as 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).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level of input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values of Contingent Consideration is included below:

Contingent consideration payable

The Group has recognised an amount of $5,652,000 (30 June 2017: $10,143,000) for contingent consideration payable to the vendors of Eastwick Communications in connection with the acquisition completed on 29 September 2016. The fair value of the future contingent consideration liability is estimated based on the achievement of EBIT targets through to 30 June 2020. There is uncertainty around the actual payments that will be made as the payments are subject to the performance of Eastwick Communications subsequent to the reporting date, including a minimum EBIT threshold for future payments and a final uncapped payment. Actual future payments may differ from the estimated liability.

As the inputs in these valuations are not based on observable market data, this is deemed a Level 3 measurement of fair value.

2. Operating segments

The Group had one operating segment (Operating Brands) based on internal reporting regularly reviewed by the Chief Executive Officer (CEO), who is the Group's chief operating decision maker (CODM).

The operating segment is defined based on the manner in which service is provided in the geographies operated in, and it correlates to the way in which results are reported to the CEO on a monthly basis. Revenues are derived from marketing services.

The Operating Brands segment includes International and Australian specialised marketing and communication services, including strategy, market research, advertising, public relations, communications planning, graphic design, events management, direct marketing and corporate communications.

The measure of reporting to the CEO 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 does not reflect the underlying trading of the operations.

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

Operating EBITDA: is calculated as profit before interest, taxes, depreciation, amortisation, impairment, gain on sale of business asset and acquisition costs.

2. Operating segments (continued)

2017 **In thousands of AUD**	**Operating Brands**	**Total segment**	**Unallocated**	**Eliminations**	**Consolidated**
Gross revenue	93,020	93,020	_	_	93,020
Directly attributable cost of sales	(45,246)	(45,246)	_	_	(45,246)
Net revenue	47,774	47,774	_	_	47,774
Other income	90	90	_	_	90
Operating expenses	(39,286)	(39,286)	(2,884)	_	(42,170)
Operating EBITDA	8,578	8,578	(2,884)	_	5,694
Gain on sale of business asset	627	627	_	_	627
Depreciation and amortisation expenses					(1,500)
Net finance costs					(147)
Profit before tax					4,674
Income tax expense					(653)
Profit for the period					4,021
Goodwill	82,943	82,943	_	_	82,943
Other intangibles	1,110	1,110	_	_	1,110
Assets excluding intangibles	35,107	35,107	33,358	(1,267)	67,198
Total assets	119,160	119,160	33,358	(1,267)	151,251
Liabilities	35,632	35,632	8,448	(1,267)	42,813
Total liabilities	35,632	35,632	8,448	(1,267)	42,813

* All segments are continuing operations.

2016 **In thousands of AUD**	**Operating Brands**	**Total segment**	**Unallocated**	**Eliminations**	**Consolidated**
Gross revenue	89,799	89,799	_	_	89,799
Directly attributable cost of sales	(38,553)	(38,553)	_	_	(38,553)
Net revenue	51,246	51,246	_	_	51,246
Other income	103	103	_	_	103
Operating expenses	(43,527)	(43,527)	(2,966)	_	(46,493)
Operating EBITDA	7,822	7,822	(2,966)	_	4,856
Acquisition costs	(156)	(156)	_	_	(156)
Depreciation and amortisation expenses					(1,478)
Net finance costs					(1)
Profit before tax					3,221
Income tax expense					(796)
Profit for the period					2,425
Goodwill	81,802	81,802	_	_	81,802
Other intangibles	1,332	1,332	_	_	1,332
Assets excluding intangibles	35,649	35,649	35,487	(5,519)	65,617
Total assets	118,783	118,783	35,487	(5,519)	148,751
Liabilities	32,467	32,467	18,846	(5,519)	45,794
Total liabilities	32,467	32,467	18,846	(5,519)	45,794

* All segments are continuing operations.

3. Income tax expense

Recognised in the income statement

In thousands of AUD	2017	2016
Current tax expense		
Current year	803	554
Adjustments for prior years	39	98
	842	652
Deferred tax expense		
Origination and reversal of temporary differences	(189)	144
	(189)	144
Income tax expense in income statement	653	796

Numerical reconciliation between tax expense and pre-tax accounting profit		
Profit for the period	4,021	2,425
Income tax expense	653	796
Profit before income tax	4,674	3,221
Income tax expense using the Company's domestic tax rate of 30% (2016: 30%)	1,402	966
Increase in income tax expense due to:		
Share based payment expense	77	62
Non-deductible present value interest	44	23
Tax losses not brought to account	7	290
Under provision for tax in prior years	39	98
Decrease in income tax expense due to:		
Effect of lower tax rate on overseas income	(40)	(84)
Effect of losses previously not booked	(869)	(596)
Other (subtraction)/non-deductible items	(7)	37
Income tax expense on pre-tax net profit	653	796

4. Earnings per share

	2017	2016
Profit attributable to ordinary shareholders		
In thousands of AUD		
Profit for the period	4,021	2,425
Non-controlling interests	(248)	(122)
Profit for the period attributable to equity owners	3,773	2,303
Weighted average number of ordinary shares		
In thousands of shares		
Weighted average number of ordinary shares – basic	84,177	83,204
Shares issuable under equity-based compensation plans	597	2,181
Weighted average number of ordinary shares – diluted	84,774	85,385
Earnings per share		
Basic (AUD cents)	4.48	2.77
Diluted (AUD cents)	4.45	2.70

5. Intangible assets

In thousands of AUD	Goodwill	IT related intellectual property	Contracts and customer relationships	Internally generated intangible assets	Total
31-Dec-2017					
At cost	283,666	–	1,614	535	285,815
Accumulated amortisation	–	–	(504)	(535)	(1,039)
Impairment	(200,723)	–	–	–	(200,723)
Net carrying amount	82,943	–	1,110	–	84,053

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

Carrying amount at 1 July 2017	81,802	–	1,332	–	83,134
Amortisation	–	–	(202)	–	(202)
Effect of movements in exchange rates	1,141	–	(20)	–	1,121
Carrying amount at 31 December 2017	82,943	–	1,110	–	84,053

30-Jun-2017					
At cost	280,694	6,556	1,639	2,085	290,974
Accumulated amortisation	–	(299)	(307)	(1,375)	(1,981)
Impairment	(198,892)	(6,257)	–	(710)	(205,859)
Net carrying amount	81,802	–	1,332	–	83,134

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

Carrying amount at the 1 July 2016	75,446	–	–	56	75,502
Acquisition through business combination	10,275	–	1,650	–	11,925
Amortisation	–	–	(313)	(56)	(369)
Effect of movements in exchange rates	(3,919)	–	(5)	–	(3,924)
Carrying amount at 30 June 2017	81,802	–	1,332	–	83,134

Goodwill Cash Generating Unit (CGU) group allocation

The Group has two CGUs, the Operating Brands CGU and the Search Marketing CGU. The entire goodwill balance of $82,943,000 (30 June 2017: $81,802,000) relates to Operating Brands CGU.

The increase in the goodwill carrying value as compared to the prior reporting period is due to an increase in the Australian dollar translation of foreign currency denominated goodwill.

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

All the operating businesses are managed as one collective group which forms the Operating Brands segment.

For the purpose of impairment testing, goodwill is allocated to the Group's operating business units that represent the lowest level within the Group at which goodwill is monitored for internal management purposes and synergies obtained by the business unit.

5. Intangible assets (continued)

The aggregation of assets in the CGU group continues to be determined using a service offering. The Search Marketing businesses do not form part of the Operating Brands CGU as they do not obtain synergies with the businesses in that CGU. However they are included in the Operating Brands Segment. They have no carrying value.

The recoverable amount of CGU group was based on value in use in both the current and prior reporting period. The methodologies and assumptions used for calculating value in use for all of the CGU groups have remained materially consistent with those applied in prior period.

Key assumptions

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

Discount rates are based on the Group'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. Discount rates used are appropriate for the currency in which cash flows are generated and are adjusted to reflect the current view on the appropriate debt equity ratio and risks inherent in assessing future cash flows.

Growth rates

A compound average growth rate (CAGR) of 2.4% (30 June 2017: 2.4%) has been applied to the cash flows of the first five years of cash flows. The five years of cash flows are discounted to present value. The growth rate is based on analysis of organic growth expectations, historical growth rates and industry growth rates. The growth rate also takes into account weighting of international operations of the Group.

Long-term growth rate into perpetuity

Long-term growth rates of 2.5% (30 June 2017: 2.5%) are used into perpetuity, based on expected long-range growth rates for the industry.

Impairment testing key assumptions for Operating Brands CGU

	31-Dec-2017	30-Jun-2017
Post-tax discount rate %	10.37 – 11.49	10.14 – 11.36
Pre-tax discount rate %	13.02 – 16.01	12.23 – 16.27
Long-term perpetuity growth rate %	2.50	2.50

Sensitivity assumptions for impairment testing assumptions

As at 31 December 2017, management has identified that for the carrying amount to exceed the recoverable amount the discount rate would need to increase by approximately 1.8% to 3.0% depending on the currency. A nil growth rate in the cash flows for the first five years would continue to generate an estimated recoverable amount above the carrying amount.

6. Contingent liabilities

Indemnities

Indemnities have been provided to Directors and certain Executive Officers of the Company in respect of 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 31 December 2017.

7. Key management personnel and other related party disclosures

In addition to Executive and Non-Executive Directors, there were key management personnel of the Group during the reporting period.

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.

There were no transactions with the Directors during the current or prior reporting period.

8. Acquisition

2017

There were no acquisitions in the current reporting period.

2016

On 29 September 2016 the Group, via its subsidiary Hotwire Public Relations Group LLC, acquired the business net assets of Eastwick Communications, a USA based independent technology public relations agency with offices in San Francisco and New York. The purchase price was an upfront cash payment of US$ 5 million (A$6.3 million) in addition to contingent consideration payable to the vendors of Eastwick Communications in three tranches across a four year period through to 30 June 2020. Future payments are subject to a minimum EBIT threshold and a final uncapped payment based on the average EBIT. The fair value of the future contingent consideration liability is estimated based on the achievement of EBIT targets.

Following completion, the business operations of Eastwick Communications and Hotwire Public Relations Group LLC, were merged together to operate under the Hotwire Public Relations brand, strengthening the offering and capabilities of Hotwire Public Relations in USA market.

This acquisition contributed $3,272,000 to net revenue and $52,000 to net profit after tax of the Group for the half year ended 31 December 2016.

The net revenue and net profit after tax of the Group for the half year ended 31 December 2016 would had been $54,486,000 and $2,709,000 respectively, had the Group acquired the business of Eastwick Communication at the beginning of the financial year.

Effect of acquisition for the half year ended 31 December 2016 on the Group's assets and liabilities.

The fair value of the net identifiable assets and liabilities acquired at the date of acquisition were:

In thousands of AUD	Recognised values	Fair value adjustment	Carrying amount
Cash and cash equivalents	262	–	262
Trade and other receivables	2,477	–	2,477
Other assets	287	–	287
Property, plant and equipment	274	–	274
Intangible assets	–	1,650	1,650
Trade and other payables	(546)	–	(546)
Employee benefits	(190)	–	(190)
Provisions	(3)	–	(3)
Other liabilities	(87)	–	(87)
Net identifiable assets and liabilities	**2,474**	**1,650**	**4,124**

8. Acquisition (continued)

Goodwill on acquisition	
Total consideration	14,399
Less: Fair value of identifiable assets	(4,124)
Goodwill	**10,275**

Total acquisition cash outflow for half year ended 31 December 2016:

In thousands of AUD	
Total consideration	14,399
Less: Contingent consideration	(7,809)
Less: Cash acquired	(262)
Net cash paid	**6,328**

Fair value adjustments represent identifiable intangible assets (contracts and customer relationships) acquired from Eastwick Communications.

Goodwill has arisen on the acquisition of business of Eastwick Communications as intangibles including key management, speciased know-how of the workforce, employee relationships, competitive position and service offerings do not meet the recognition criteria as an intangible asset at the date of acquisition.

9. Sale of business asset

On 31 October 2017, the Group sold Dark Blue Sea's (a subsidiary) domain registrar asset for consideration of $627,000. As this asset was previously impaired, a gain on sale was recognised in the interim income statement during the current reporting period.

10. Subsequent events

Acquisition

Subsequent to the interim reporting date, on 2 February 2018, the Group acquired 100% of the issued capital of Orchard Marketing Pty Limited, a creative and technology agency with offices in Sydney and New York, net revenue for the financial year ended 30 June 2017 of $12 million and 70 full time staff.

The purchase price was an initial cash payment of $5 million in addition to contingent consideration payments tied to EBIT targets through to the period 30 June 2021. Future payments are subject to average EBIT achieved through the period and the agreement is subject to a total purchase price cap of $27 million.

As at the date of this report, the acquisition date fair value of the consideration transferred, fair value of the classes of consideration (including contingent consideration) and fair values of assets acquired and liabilities assumed have not been determined.

Dividend

Subsequent to the interim reporting date, the Directors have declared an interim dividend, with respect to ordinary shares, of 1.5 cents per share, fully franked. The interim dividend will have a record date of 1 March 2018 and a payment date of 15 March 2018. The financial effect of this dividend has not been brought to account in the financial statements for the half year ended 31 December 2017 but will be recognised in subsequent financial reports.

Except for the events listed above there has not arisen, in the interval between the end of the interim period 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 Group, the results of those operations, or the state of affairs of the Group in the future financial period.

Enero Group Limited

Financial Report - half year ended 31 December 2017

Directors' Declaration

In the opinion of the directors of Enero Group Limited ("the Company"):

1. the condensed interim consolidated financial statements and notes set out on page 5 to 19 are in accordance with the Corporations Act 2001 including:
   (a) giving a true and fair view of the Group's financial position as at 31 December 2017 and the performance for the half-year ended on that date; and
   (b) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Sydney this 15th day of February 2018.

Signed in accordance with a resolution of the directors:

John Porter
Chairman

Independent Auditor's Review Report

To the shareholders of Enero Group Limited

Report on the Half-year Financial Report

Conclusion

We have reviewed the accompanying ***Half-year Financial Report*** of Enero Group Limited (the Company).

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Half-year Financial Report of Enero Group Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001.*

The ***Half-year Financial Report*** comprises:

- Consolidated interim statement of financial position as at 31 December 2017
- Consolidated interim income statement, consolidated interim statement of comprehensive income, consolidated interim statement of changes in equity, and consolidated interim statement of cash flows for the half-year ended on that date
- Notes 1 to 10 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The ***Group*** comprises the Company and the entities it controlled at the half year's end or from time to time during the half-year.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

KPMG

Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Company are responsible for:

- the preparation of the Half-year Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- for such internal control as the Directors determine is necessary to enable the preparation of the Half-year Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half-year Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Half-year Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Enero Group Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a Half-year Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

KPMG

Caoimhe Toouli

KPMG

Caoimhe Toouli

Partner

Sydney

15 February 2018

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 review of Enero Group Limited for the half-year ended 31 December 2017 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Caoimhe Toouli

Caoimhe Toouli
Partner

Sydney
15 February 2018

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.