Enero Group Limited and Controlled Entities
ABN 97 091 524 515

Preliminary Final Report

Appendix 4E

Year ended 30 June 2018

Enero Group Limited

Preliminary Final Report - year ended 30 June 2018

Contents

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 30 June 2018.

The previous corresponding reporting period is 1 July 2016 to 30 June 2017.

Key information

In thousands of AUD

	30 June 2018	30 June 2017	% Change	Amount Change
Gross revenues from ordinary activities	200,039	180,666	10.7%	19,373
Profit/(loss) after tax attributable to members	8,473	1,796	371.8%	6,677
Profit/(loss) for the period attributable to members	8,473	1,796	371.8%	6,677

Dividends	Amount per security	Total amount AUD'000	Date of payment
Fully franked interim dividend	1.5 cents	1,284	15 March 2018
Fully franked final dividend	2.5 cents	2,140	8 October 2018

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

Additional Information

	Current period	Previous corresponding period
Net tangible asset backing per ordinary share	0.06	0.24

Explanation of results

The information requiring disclosures to comply with listing rule 4.3A is contained in this report.

Summary of key results:

Reconciliation of statutory profit after tax to Operating EBITDA:

In thousands of AUD	2018	2017
Net revenue	103,685	100,172
Operating EBITDA	13,513	10,364
Depreciation and amortisation expenses	(3,215)	(3,758)
Net finance costs	(585)	(149)
Gain on sale of business asset	627	–
Non-recurring dual occupancy costs	–	(637)
Incidental acquisition costs	–	(156)
Contingent consideration fair value loss	–	(2,303)
Profit before tax	10,340	3,361
Income tax expense	(1,253)	(1,431)
Statutory profit after tax	9,087	1,930

Significant items

The Company incurred the following significant one off items in the financial year:

2018
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 income statement for the year ended 30 June 2018.

2017

- Non-recurring dual occupancy costs in relation to the consolidation of all Sydney office locations into 100 Harris St, Pyrmont;
- Incidental acquisition costs relating to the acquisition of Eastwick Communications;
- Contingent consideration fair value losses on:
  - The revaluation of future contingency consideration payable to the vendors of Eastwick Communications; and
  - Payments made to historical Tranche 3a/3b contingent consideration holders paid in May 2017.

Basis of preparation

This report includes Operating EBITDA, a measure used by the Directors and management in assessing the on-going 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, contingent consideration fair value loss, non-recurring dual occupancy costs, and incidental acquisition costs. Operating EBITDA, which is reconciled in the table on page 2 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 on-going operations.

Operating performance

The Group consists of 10 marketing and communications services businesses across seven countries with more than 550 employees. The Group is connected through four key pillars:

- Strategy, Research & Insight;
- Creative & Content;
- Digital; and
- Integrated Communications & Public Relations.

The Group's service offering includes integrated marketing and communication services, including strategy, market research and insights, advertising, digital, public relations, communications planning, design, events management, direct marketing and corporate communications.

The Group has three key geographic locations - Australia, UK and USA - which house the majority of the Group's businesses and employees. The Group also has a number of non-owned affiliates in other geographic areas which connect the Group into a global network.

The Group achieved Net Revenue of $103.7 million, an increase of 3.5% compared to the prior reporting period. Operating EBITDA of $13.5 million was 29.8% above the prior reporting period. The Operating EBITDA margin increased from 10.4% in 2017 to 13.0% in 2018. In the current year, the Operating Brands segment generated approximately 54% of both its net revenue and Operating EBITDA from international markets.

The increase in Revenue and Operating EBITDA in the current year was attributable to:

- contribution from the acquisition of Orchard Marketing since February 2018; offset by
- impact of closure of Naked Communications London and New York offices in March 2017.

Acquisition

2018

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. The purchase price was an upfront cash payment of $5 million in addition to contingent consideration payments tied to EBIT targets through to the period 30 June 2021. Refer to note 7 Acquisition for details.

2017

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$5.0 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 7 Acquisition for details.

Capital Management

The Group completed its acquisition of Orchard Marketing during the financial year as part of its capital management initiatives. The Group's capital management strategy aims to balance returns to shareholders through dividends, funding acquisition and investment opportunities as well as maintaining adequate cash reserves for existing business. The Group continues to seek acquisitions opportunities that are aligned with Group strategy from a geographical or expansion of services perspective.

Events subsequent to year end reporting date

Subsequent to the balance date, the Directors have declared a final dividend, with respect to ordinary shares, of 2.5 cents per share, fully franked. The final dividend will have a record date of 24 September 2018 and a payment date of 8 October 2018. Except for this event 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 significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Enero Group Limited

Preliminary Final Report - year ended 30 June 2018

Consolidated income statement
for the year ended 30 June 2018

In thousands of AUD	Note	2018	2017
Gross revenue		200,039	180,666
Directly attributable costs of sales		(96,354)	(80,494)
Net revenue		103,685	100,172
Other income		239	207
Employee expenses		(72,310)	(71,382)
Occupancy costs		(6,838)	(8,036)
Travel expenses		(1,536)	(1,244)
Communication expenses		(2,121)	(2,038)
Compliance expenses		(1,261)	(1,434)
Depreciation and amortisation expenses		(3,215)	(3,758)
Administration expenses		(6,345)	(6,518)
Gain on sale of business asset		627	–
Incidental acquisition costs		–	(156)
Contingent consideration fair value loss		–	(2,303)
Net finance costs		(585)	(149)
Profit before income tax		10,340	3,361
Income tax expense	3	(1,253)	(1,431)
Profit for the year		9,087	1,930
Attributable to:			
Equity holders of the parent		8,473	1,796
Non-controlling interests		614	134
		9,087	1,930
Basic earnings per share (AUD cents)	4	10.1	2.2
Diluted earnings per share (AUD cents)	4	10.0	2.1

Notes on pages 10 to 21 are an integral part of this preliminary final report.

Enero Group Limited

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Consolidated statement of comprehensive income
for the year ended 30 June 2018

In thousands of AUD	Note	2018	2017
Profit for the year		9,087	1,930
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		4,312	(4,909)
Total items that may be reclassified subsequently to profit or loss		4,312	(4,909)
Other comprehensive income/(loss) for the year, net of tax		4,312	(4,909)
Total comprehensive income/(loss) for the year		13,399	(2,979)
Attributable to:			
Equity holders of the parent		12,755	(3,065)
Non-controlling interests		644	86
		13,399	(2,979)

Notes on pages 10 to 21 are an integral part of this preliminary final report.

Consolidated statement of changes in equity

for the year ended 30 June 2018

In thousands of AUD	Note	Attributable to owners of the Company 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
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 year		–	1,796	–	–	–	–	1,796	134	1,930
Other comprehensive loss for the year net of tax		–	–	–	–	–	(4,861)	(4,861)	(48)	(4,909)
Total comprehensive income/(loss) for the year		–	1,796	–	–	–	(4,861)	(3,065)	86	(2,979)
Transactions with owners recorded directly in equity:										
Shares issued to employees on exercise of Share Appreciation Rights		2,013	–	–	(2,013)	–	–	–	–	–
Share capital reduction in accordance with section 258F of the Corporations Act 2001		(397,200)	397,200	–	–	–	–	–	–	–
Transfer to profit appropriation reserve		–	(12,443)	12,443	–	–	–	–	–	–
Dividends paid to equity holders		–	(4,280)	–	–	–	–	(4,280)	(1,414)	(5,694)
Share based payment expense		–	–	–	371	–	–	371	–	371
Closing balance at 30 June 2017		96,389	7,030	12,443	11,857	(1,417)	(24,049)	102,253	704	102,957
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 year		–	8,473	–	–	–	–	8,473	614	9,087
Other comprehensive income for the year net of tax		–	–	–	–	–	4,282	4,282	30	4,312
Total comprehensive income for the year		–	8,473	–	–	–	4,282	12,755	644	13,399
Transactions with owners recorded directly in equity:										
Shares issued to employees on exercise of Share Appreciation Rights		267	–	–	(267)	–	–	–	–	–
Transfer to profit appropriation reserve		–	(14,076)	14,076	–	–	–	–	–	–
Dividends paid to equity holders		–	–	(1,284)	–	–	–	(1,284)	(516)	(1,800)
Share based payment expense		–	–	–	516	–	–	516	–	516
Closing balance at 30 June 2018		96,656	1,427	25,235	12,106	(1,417)	(19,767)	114,240	832	115,072

Notes on pages 10 to 21 are an integral part of this preliminary final report.

Consolidated statement of financial position
as at 30 June 2018

In thousands of AUD	Note	2018	2017
Assets			
Cash and cash equivalents		34,379	32,512
Trade and other receivables		27,197	19,994
Other assets		4,173	4,251
Income tax receivable		–	70
Total current assets		65,749	56,827
Deferred tax assets		1,735	1,735
Plant and equipment		6,323	6,899
Other assets		136	156
Intangible assets	5	110,056	83,134
Total non-current assets		118,250	91,924
Total assets		183,999	148,751
Liabilities			
Trade and other payables		31,840	26,568
Contingent consideration payable	6	–	4,512
Interest-bearing loans and borrowings		1,423	1,352
Employee benefits		3,545	2,772
Income tax payable		1,138	512
Provisions		267	18
Total current liabilities		38,213	35,734
Contingent consideration payable	6	25,802	5,631
Interest-bearing loans and borrowings		493	1,915
Employee benefits		728	661
Provisions		3,691	1,853
Total non-current liabilities		30,714	10,060
Total liabilities		68,927	45,794
Net assets		115,072	102,957
Equity			
Issued capital		96,656	96,389
Other reserves		(9,078)	(13,609)
Profit appropriation reserve		25,235	12,443
Retained profits		1,427	7,030
Total equity attributable to equity holders of the parent		114,240	102,253
Non-controlling interests		832	704
Total equity		115,072	102,957

Notes on pages 10 to 21 are an integral part of this preliminary final report.

Consolidated statement of cash flows
for the year ended 30 June 2018

In thousands of AUD	Note	2018	2017
Cash flows from operating activities			
Cash receipts from customers		209,778	203,338
Cash paid to suppliers and employees		(194,047)	(191,610)
Cash generated from operations		15,731	11,728
Interest received		252	259
Income taxes paid		(1,554)	(1,965)
Interest paid		(209)	(182)
Net cash from operating activities		14,220	9,840
Cash flows from investing activities			
Proceeds from disposal of non-current assets		9	91
Consideration from sale of business asset		627	–
Acquisition of plant and equipment		(1,641)	(1,295)
Acquisition of a business, net of cash acquired	7	(4,397)	(6,328)
Contingent consideration paid	6	(4,492)	–
Net cash used in investing activities		(9,894)	(7,532)
Cash flows from financing activities			
Finance lease payments		(1,351)	(753)
Dividends paid to equity holders of the parent		(1,284)	(4,280)
Dividends paid to non-controlling interests in controlled entities		(516)	(1,414)
Net cash used in financing activities		(3,151)	(6,447)
Net increase/(decrease) in cash and cash equivalents		1,175	(4,139)
Effect of exchange rate fluctuations on cash held		692	(969)
Cash and cash equivalents at 1 July		32,512	37,620
Cash and cash equivalents at 30 June		34,379	32,512

Notes on pages 10 to 21 are an integral part of this preliminary final report.

Notes to the preliminary final report
for the year ended 30 June 2018

1. Statement of significant accounting policies

a. Statement of compliance

The preliminary final report has been prepared in accordance with the ASX Listing Rule 4.3A and has been derived from the unaudited consolidated annual financial report. The consolidated annual financial report has been prepared in accordance with Australian Accounting Standards ("AASBs") adopted by the Australian Accounting Standards Board and the Corporations Act 2001. The consolidated annual financial report also complies with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board (IASB).

The preliminary final report is presented in Australian dollars and has been prepared on the historical cost basis except for derivative financial instruments, business combinations acquired under revised AASB 3 Business Combinations, intangible assets, trade and other receivables, non-derivative financial liabilities and share-based payment transactions which are stated at their fair value.

The consolidated annual financial report is in the process of being audited and is expected to be made available on 28 August 2018. This preliminary final report does not include all the notes of the type normally included in a consolidated annual financial report. Accordingly, this report should be read in conjunction with any public announcements made by the Company during the year in accordance with the continuous disclosure requirements arising under the Corporations Act 2001 and ASX Listing Rules.

b. Significant accounting policies

The accounting policies applied by the Group in this 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 2018, and have not been applied in preparing these consolidated 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)

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 abovenamed standards.

1. Statement of significant accounting policies (continued)

c. 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 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.

For further information about the assumptions made in measuring fair values of Contingent Consideration Payable refer Note 6.

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:

2. Operating segments (continued)

Operating EBITDA: is calculated as profit before interest, taxes, depreciation, amortisation, impairment, gain on sale of business asset, contingent consideration fair value loss, non-recurring dual occupancy costs, and incidental acquisition costs.

2018 In thousands of AUD	Operating Brands	Total segment	Unallocated	Eliminations	Consolidated
Gross revenue	200,039	200,039	_	_	200,039
Directly attributable cost of sales	(96,354)	(96,354)	_	_	(96,354)
Net revenue	103,685	103,685	_	_	103,685
Other income	239	239	_	_	239
Operating expenses	(84,568)	(84,568)	(5,843)	_	(90,411)
Operating EBITDA	19,356	19,356	(5,843)	_	13,513
Depreciation and amortisation expenses					(3,215)
Gain on sale of business asset	627	627	_	_	627
Net finance costs					(585)
Profit before income tax					10,340
Income tax expense					(1,253)
Profit for the year					9,087
Goodwill	106,858	106,858	_	_	106,858
Other intangibles	3,198	3,198	_	_	3,198
Assets excluding intangibles	42,503	42,503	38,011	(6,571)	73,943
Total assets	152,559	152,559	38,011	(6,571)	183,999
Liabilities	66,922	66,922	8,576	(6,571)	68,927
Total liabilities	66,922	66,922	8,576	(6,571)	68,927
Amortisation of intangibles	667	667	_	_	667
Depreciation	1,325	1,325	1,223	_	2,548
Capital expenditure	1,231	1,231	410	_	1,641

* All segments are continuing operations.

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	2018 Net revenues	2018 Non-current assets	2017 Net revenues	2017 Non-current assets
Australia	48,154	5,943	42,905	5,913
UK and rest of Europe	35,134	1,286	37,968	1,490
USA	20,397	965	19,299	1,387
Unallocated intangibles(i)	_	110,056	_	83,134
Total	103,685	118,250	100,172	91,924

(i) Goodwill and other intangibles are allocated to the Operating Brands segment. However, as the Operating Brands are managed at a global level they cannot be allocated across geographical segments.

2. Operating segments (continued)

2017 In thousands of AUD	Operating Brands	Total segment	Unallocated	Eliminations	Consolidated
Gross revenue	180,666	180,666	_	_	180,666
Directly attributable cost of sales	(80,494)	(80,494)	_	_	(80,494)
Net revenue	100,172	100,172	_	_	100,172
Other income	207	207	_	_	207
Operating expenses	(84,323)	(84,323)	(5,692)	_	(90,015)
Operating EBITDA	16,056	16,056	(5,692)	_	10,364
Depreciation and amortisation expenses					(3,758)
Incidental acquisition costs	(156)	(156)	_	_	(156)
Contingent consideration fair value loss	(2,208)	(2,208)	(95)	_	(2,303)
Non-recurring dual occupancy costs	(348)	(348)	(289)	_	(637)
Net finance costs					(149)
Profit before income tax					3,361
Income tax expense					(1,431)
Profit for the year					1,930
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
Amortisation of intangibles	369	369	_	_	369
Depreciation	2,977	2,977	412	_	3,389
Capital expenditure	606	606	689	_	1,295

* All segments are continuing operations.

Major Customer
Net revenue from a customer of the Operating Brands segment represented approximately 13% of the Group’s total net revenue for the year ended 30 June 2018 (2017: 13%).

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3. Income tax expense

Recognised in the income statement

In thousands of AUD	2018	2017
Current tax expense		
Current year	1,842	1,343
Adjustments for prior years	(4)	119
	1,838	1,462
Deferred tax expense		
Origination and reversal of temporary differences	(585)	(31)
	(585)	(31)
Income tax expense in income statement	1,253	1,431

Numerical reconciliation between tax expense and pre-tax accounting profit		
Profit for the year	9,087	1,930
Income tax expense	1,253	1,431
Profit excluding income tax	10,340	3,361
Income tax expense using the Company's domestic tax rate of 30% (2017: 30%)	3,102	1,008
Increase in income tax expense due to:		
Share-based payment expense	155	111
Tax losses not brought to account	7	663
Unwind of present value interest	188	68
Other non-deductible/(subtraction) items	147	(24)
Amortisation of intangibles	78	–
Contingent consideration fair value loss	–	691
Decrease in income tax expense due to:		
Effect of losses not previously recognised	(2,322)	(966)
Effect of lower tax rate on overseas incomes	(98)	(239)
(Over)/under provision for tax in previous years	(4)	119
Income tax expense on pre-tax net profit	1,253	1,431

4. Earnings per share

	2018	2017
Profit attributable to equity holders of the parent		
In thousands of AUD		
Profit for the year	9,087	1,930
Non-controlling interests	(614)	(134)
Profit for the year attributable to equity holders of the parent	8,473	1,796

	2018	2017
Weighted average number of ordinary shares		
In thousands of shares		
Weighted average number of ordinary shares – basic	84,243	83,605
Shares issuable under equity-based compensation plans	519	1,669
Weighted average number of ordinary shares – diluted	84,762	85,274

	2018	2017
Earnings per share		
In AUD cents		
Basic	10.1	2.2
Diluted	10.0	2.1

5. Intangible assets

In thousands of AUD	Goodwill	IT related intellectual property	Contracts and customer relationships	Internally generated intangible assets	Total
2018					
Cost	292,234	–	4,203	257	296,694
Accumulated amortisation	–	–	(1,005)	(257)	(1,262)
Impairment	(185,376)	–	–	–	(185,376)
Net carrying amount	106,858	–	3,198	–	110,056
Reconciliations of the carrying amounts of intangibles are set out below:					
Carrying amount at the beginning of the year	81,802	–	1,332	–	83,134
Acquired through business combination	21,403	–	2,502	–	23,905
Amortisation	–	–	(667)	–	(667)
Effect of movements in exchange rates	3,653	–	31	–	3,684
Carrying amount at the end of the year	106,858	–	3,198	–	110,056

5. Intangible assets (continued)

2017					
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 beginning of the year	75,446	–	–	56	75,502
Acquired 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 the end of the year	81,802	–	1,332	–	83,134

Goodwill CGU group allocation
The Group has two CGUs, the Operating Brands CGU and the Search Marketing CGU. The entire goodwill balance of $106,858,000 (2017: $81,802,000) relates to Operating Brands CGU.

The increase in the goodwill carrying value as compared to the prior reporting period is primarily in relation acquisition of Orchard Marketing (2017: acquisition of Eastwick Communications). Refer Note 7 Acquisition for details.

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.

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 was based on value in use in both the current and prior year. 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 year.

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.

5. Intangible assets (continued)

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 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

In thousands of AUD	**2018**	**2017**
Post-tax discount rate %	10.41 – 11.50	10.14 – 11.36
Pre-tax discount rate %	12.96 – 16.09	12.23 – 16.27
Long-term perpetuity growth rate %	2.50	2.50

Sensitivity assumptions for impairment testing assumptions

As at 30 June 2018, management has identified that for the carrying amount to exceed the recoverable amount the discount rate would need to increase by 1.2% to 2.3% depending on the currency. A nil growth rate in the cash flows of first five years would continue to generate an estimated recoverable amount above the carrying amount.

6. Contingent consideration payables

In thousands of AUD	**2018**	**2017**
Current		
Contingent consideration payable	–	4,512
Non-current		
Contingent consideration payable	25,802	5,631
Reconciliations of the carrying amounts of contingent consideration are set out below:		
Carrying amount at the beginning of the year	10,143	–
Recognised in business combination	19,362	7,809
Re-assessment of contingent consideration	–	2,208
Unwind of present value interest	628	226
Effect of movements in exchange rates	161	(100)
Contingent consideration paid	(4,492)	–
Carrying amount at the end of the year	25,802	10,143

There is uncertainty around the actual payments that will be made as the payments are subject to the performance of Orchard Marketing and Eastwick Communications subsequent to the reporting date. Factors which could vary the amount of contingent consideration payable due include a minimum EBIT threshold for future payments, the basis of the average EBIT over the contingent consideration period and whether the final payment is capped or uncapped. Actual future payments may differ from the estimated liability.

6. Contingent consideration payables (continued)

Fair value measurement:

The following tables show the valuation techniques used in measuring Level 3 fair values for contingent consideration payable measured at fair value in the statement of financial position, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Contingent consideration payable	Discounted cash flows: The valuation model considers the present value of expected payment, discounted using a risk-adjusted discount rate. The expected payment is determined by considering the possible scenarios of forecast average EBIT, the amount to be paid under each scenario and the probability of each scenario.	- Forecast average EBIT. - Risk-adjusted discount rate: 3.75% to 4.55%.	The estimated fair value would increase/ (decrease) if: - the EBIT is higher (lower); or - the risk-adjusted discount rate were lower (higher).

Sensitivity analysis

Reasonably possible changes at 30 June 2018 to one of the significant unobservable inputs, holding other inputs constant, would have the following effects on the fair values of contingent consideration:

In thousands of AUD	Increase	Decrease
Average EBIT (5% movement)	773	(3,434)
Risk-adjusted discount rate (0.5% movement)	(348)	348

There is an unequal impact in the increase or decrease in Average EBIT under the sensitivity analysis due to the application of a total purchase price cap for the acquisition of Orchard Marketing.

7. Acquisition

2018

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, with over 70 employees. The purchase price was an upfront 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 the achievement of EBIT thresholds with a total purchase price cap of $27 million based on the average EBIT of the preceding four years. The fair value of the future contingent consideration liability is estimated based on the achievement of EBIT targets.

This acquisition contributed $6,108,000 to net revenue and $934,000 to net profit after tax of the Group for the year ended 30 June 2018.

The net revenue and net profit after tax of the Group for the year ended 30 June 2018 would have been $111,946,000 and $10,682,000 respectively, had the Group acquired the business of Orchard Marketing at the beginning of the financial year.

Effect of acquisition for the year ended 30 June 2018 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	1,636	–	1,636
Trade and other receivables	3,273	–	3,273
Other assets	368	–	368
Property, plant and equipment	241	–	241
Intangible assets	–	2,502	2,502
Deferred tax liability (net)	160	(751)	(591)
Trade and other payables	(2,656)	–	(2,656)
Employee benefits	(343)	–	(343)
Provisions	(63)	–	(63)
Income tax payable	(375)	–	(375)
Net identifiable assets and liabilities	2,241	1,751	3,992

The fair value adjustment recognised customer contracts and relationships acquired as an intangible asset in the business combination.

Goodwill on acquisition

In thousands of AUD	
Total consideration	25,395
Less: Fair value of identifiable assets	(3,992)
Goodwill	21,403

Total acquisition cash outflow for year ended 30 June 2018

In thousands of AUD	
Total consideration	25,395
Less: Contingent consideration	(19,362)
Less: Cash acquired	(1,636)
Net cash paid	4,397

2017

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 of the preceding four years. The fair value of the future contingent consideration liability is estimated based on the achievement of EBIT targets.

As at 30 June 2017, the Group increased the contingent consideration payable by $2,208,000 based on a reassessment of the achievement of EBIT targets. This amount has been included in contingent consideration fair value loss in the income statement.

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 $10,349,000 to net revenue and $623,000 to net profit after tax of the Group for the year ended 30 June 2017.

The net revenue and net profit after tax of the Group for the year ended 30 June 2017 would had been $103,410,000 and $2,214,000 respectively, had the Group acquired the business of Eastwick Communication at the beginning of the financial year.

Effect of acquisition for the year ended 30 June 2017 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

The fair value adjustment recognised customer contracts and relationships acquired as an intangible asset in the business combination.

Goodwill on acquisition

In thousands of AUD	
Total consideration	14,399
Less: Fair value of identifiable assets	(4,124)
Goodwill	10,275

Total acquisition cash outflow for year ended 30 June 2017

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