ENERO Group Limited – Annual Report 2018

ENERO 365

BMF - Frank - Hotwire - The Digital Edge - Naked - The Leading Edge - CPR - Precinct - OB Media - Orchard

THE WORLD OF ENERO

Our cover illustration graphically depicts the Enero ecosystem – representing global mobility, diversity, and a culture of fun and creativity.

Illustration by Eirian Chapman.

CONTENTS

ENERO

The boutique force in modern marketing

Enero Group is an international network of marketing and communications businesses with over 600 staff working in 15 cities around the world.

Our Group offering covers four key service pillars spanning the marketing services landscape:

- Insight and Strategy
- Creative and Content
- Integrated Communications and PR
- Digital

Today, over 300 of our team members are specialists in digital or tech roles. The other 300 staff members have diverse skills ranging across strategy, data analytics, research insight, creative ideation, design, staff and stakeholder communications, government relations, content production and social media; along with new business, finance and administration.

Together this is a powerful mix of capabilities centred around the key service areas that clients want from their marketing services partners.

The Group provides support across management, recruitment, learning and development, finance, legal, property and IT allowing our front-line team members to focus on what they do best – serving our clients by delivering world class, highly effective outcomes, day-in, day-out.

As 'marketing services' has evolved and changed, so have we, and our Group will continue to grow and develop in new and exciting ways. We are a nimble team with a global perspective and our Group is very well positioned to take advantage of the exciting new developments taking place in our highly dynamic sector.

ENERO MANIFESTO

Our name means 'January' in Spanish, which is why we always look forward with optimism, energy and a zest for life.

We exist to solve challenges for our clients and deliver results beyond their wildest dreams.

To do this we seek to unlock the unique talent that lies within each one of us, allowing our people the support, skills, training and culture that help them become the best versions of themselves and in turn make their most effective contributions each and every day.

We are passionate about what we do and seek to inspire, and encourage, all whom we encounter.

We prize diversity of thought and human diversity in all its forms. We care about the world we live in as well as the results and outcomes that we achieve. And we also like to enjoy some fun along the way.

We always support each other to grow ... knowing that we are big enough to deliver, yet small enough to care.

CHAIRMAN'S REPORT

"We continue to actively seek acquisition partners to expand our geographical presence in the key markets we operate in, or expand services to facilitate more client touchpoints."

I am pleased to report on the progress of the Group in FY2018.

We continue our careful deployment of our capital, this year completing the acquisition of Orchard in February 2018 for an initial payment of $5 million and future payments tied to its performance over the next three years. This acquisition provides a rapid increase in the Group's digital capabilities and the foothold of that business in the USA market gives further opportunities to grow our general USA market reach. Importantly, this acquisition projects the Group forward in its aims to centre its services around digital and technology.

FY2018 was a year of great change for the Group as well as the marketing services industry. Opportunities are opening up as the premise of how a marketing services group should operate has shifted. We have seen new players emerge in the form of professional services and consulting firms with active acquisition strategies. We are seeing shifts in the larger holding groups who are now consolidating brands while attempting to increase scale. We are committed to maintaining an agile stance on our shape to respond to the industry and marketplace, and we believe we're just the right size to allow our businesses to take advantage of the power of a network … while not being so large that we don't know intimately what each business stands for. We remain focused on ensuring that the Group has a coherent story to tell.

The Group had a very strong operating year with improvements in all key financial metrics. Operating EBITDA margins are broadly in line with industry benchmarks. The net profit after tax to equity holders of $8.5 million was the highest in nine years. The Board declared an FY2018 final dividend of 2.5 cents per share, fully franked, in August 2018. This brings total dividends paid for FY2018 to 4.0 cents per share, fully franked – a 43% dividend payout ratio. We are committed to returning profits to our supportive shareholders while also giving ourselves flexibility to respond quickly to investment opportunities.

We have cautiously used some leverage to complete our recent acquisitions through contingent consideration arrangements. Structuring deals this way incentivises the sellers to drive future performance and links the total purchase price to agreed financial outcomes. The Group has generated strong cash flows over the past three years converting Operating EBITDA to cash at a rate between 85% and 100% with low future capital requirements thanks to the co-location strategy. The Group also has cash reserves to satisfy these future cash consideration commitments with a net cash position of $6.7 million as at 30 June 2018. The Board is open to prudently increasing leverage for further acquisitions.

We continue to actively seek acquisition partners to expand our geographical presence in the key markets we operate in, or expand services to facilitate more client touchpoints. Patience will be required to find the right fit for our Group and we will only bring in additional capabilities that match our strategic ambitions.

Welcome to David Brain as a new Independent Non-Executive Director. David's experience in Integrated Communications and Public Relations, which makes up a significant proportion of our revenue, makes him invaluable to our teams and businesses. He has already provided fresh perspectives on opportunities for our key markets. Thank you to my fellow Board members for your support during the year.

I would like to express my thanks to my colleague Roger Amos, who after eight years of service to the Company as Deputy Chairman and Chair of the Audit and Risk Committee is not standing for re-election at this year's AGM. Roger joined the Group in much more difficult times than we have today and provided the Group with great counsel and sage advice. He leaves the Group in a strong position. On behalf of all of the Board and the Enero Executive team, we wish him all the best in his future endeavours.

On behalf of the Board, I would like to sincerely thank all the talented staff we have working in the Group for your contributions over the financial year. Being based in Europe, I have had a chance to spend time with many of the UK teams in particular and I'm continuously impressed with their problem solving for clients.

Finally, thank you to shareholders for your ongoing support of the Group and I look forward to sharing our progress with you throughout the year.

John Porter
Independent Non-Executive Chairman

CEO'S REPORT

"FY2018 has been an important year for Enero Group with significant milestones achieved across both the 'Reliable' and 'Re-Imagined' dimensions of our strategic plan."

Dear Shareholders,

FY2018 has been an important year for Enero Group with significant milestones achieved across both the 'Reliable' and 'Re-Imagined' dimensions of our strategic plan.

In terms of 'Reliable', the FY2018 Group financial result demonstrates that our businesses are now better, stronger and more consistent in what they do and how they do it. Financially the Group has delivered increases across all key metrics including:

- Net Revenue up 3.5% to $103.7 million;
- Operating EBITDA up 29.8% to $13.5 million; and
- Operating EBITDA margin up to 13%.

From the 'Re-Imagined' perspective, the year was highlighted by the acquisition of Orchard – a significant digital agency with excellent capabilities based in Sydney and New York. Orchard is the third step in our 'Re-Imagined' journey so far, following on the heels of the Eastwick acquisition for Hotwire USA in late 2016 and the release of the Group's capital restrictions in May 2017. This allowed us to commence paying dividends to our shareholders over the past year.

Today we have a team of 600 employees working across eight countries and 15 cities around the world. It is interesting to note that more than 300 of our employees are specialists in digital or technology roles. The other 300 employees have diverse skills ranging across strategy, data analytics, research insight, creative, content production and social media along with new business, finance and administration. Together this is a powerful mix of capabilities centred on the service areas that clients want and need when it comes to their marketing services.

Further to that end, during FY2018 we focused our Group offering into four key service pillars that align with the main constituent elements of the marketing services landscape:

- Insight and Strategy
- Creative and Content
- Integrated Communications and PR
- Digital

The four pillars provide a simpler way to navigate the Group, making it easier for us to become a more holistic partner for our clients through more aligned capabilities, greater scope for end-to-end opportunities and simpler entry points into the Group.

FY2018 was also a milestone year for increasing agency touchpoints with our clients by either:

1. more of our agencies working in collaboration across a single client; or
2. one of our agencies working with the same client across multiple geographies.

For example, Hotwire has embraced the concept of 'Borderless Thinking' which is focused on ensuring that the best talent and thinking are assembled for a current client or client pitch irrespective of where that talent is located. This has helped Hotwire secure a number of new large clients and grow the scope with current major clients throughout the year including now working with McAfee across eight markets, with Facebook in three markets and with Eaton Corporation in 16 markets including our affiliate network.

Meanwhile in our Sydney office, Precinct, The Leading Edge and Orchard have collaborated together on integrated assignments for University of NSW while Naked, Frank and Orchard have worked together on Moccona and L'OR brands. Greater collaboration is delivering greater depth of thinking and better solutions across our assignments and this is being appreciated as a better way forward by our employees and clients alike … so the appetite to go further is there and growing all the time.

The Australian market performed particularly well in terms of revenue and Operating EBITDA growth. BMF continues to lead the way in Australia, having being named EFFIE 'Effective Agency of the Year' in 2017; and the agency has continuing long-term relationships with a number of major clients. The acquisition of Orchard in February 2018 is key to achieving our vision of a stronger and more integrated digital capability within the Group. Chemistry and cultural alignment were crucial factors in the acquisition process and we are very pleased to now have the excellent Orchard team sitting alongside us in our building at Harris Street in Pyrmont.

Adding 70 new Orchard employees to our bustling Sydney office brought another dimension to the client opportunities and we are pleased to have seen a number of the smaller agencies in the Sydney and Melbourne offices also doing particularly well this year. Frank, Hotwire, Precinct and CPR all enjoyed strong years and are significantly benefiting from the more collaborative and networked environment.

International markets continue to represent over half of the Group's operations, which is slightly lower than the previous year due to the additional weighting of Australian revenue from Orchard. However, opportunities internationally will continue to be the focus for our growth via acquisition, as we want to better balance our portfolio across key markets and sectors. Pleasingly we are seeing an improvement in our businesses in the UK as well as strong growth in our USA-based businesses.

In the USA, while continuing to come off a small base, like-for-like revenue growth and doubling the Operating EBITDA margin to 17.2% sets a solid platform for FY2019. Other highlights in the year included the opening of new Hotwire offices in Minneapolis and Mexico City as they push for expanded remits with clients in those regions; and opening up access to a wider talent pool outside the main USA cities.

ENERO DOGS AT WORK

Dogs can bring a great deal of enjoyment to many people and make a positive contribution to our culture. Employees are encouraged to bring their dogs to work. Meet Matt's dogs – Coco and Dino.

Photograph by Deborah Sovierzoski from The Leading Edge.

In the UK, Hotwire and Frank continue to hold their long-standing records as the most profitable public relations businesses in their region. Excluding the impact of closed offices, this market achieved a 4% increase in revenue year-on-year.

During FY2018 we also welcomed Fiona Chilcott as our new Group Director, People and Culture; and Fiona has made an immediate impact as a positive and dynamic force for good across the Group. We are a people-based business and Fiona and her very skilful and dedicated People and Culture team have introduced many new initiatives that have been welcomed by our employees – who appreciate the effort that is being applied to make their workplace experience the very best that it can be.

There are many important Group programs that take place across the year but I would like to recognise three activities:

1. continuing to focus on the professional development of our people through the high quality learning and development program we offer;
2. increasing the number of females in senior leadership roles; and
3. our Global Mobility Program.

All three are vital for our Group's ongoing success in our sector as we build a better workplace and a stronger culture … and seek to attract, retain and develop the very best highly skilled employees in each of our markets.

I would like to sincerely thank all our talented employees who give so much each and every day in their passion for their work and their care for their clients and their teammates. I am very proud that every year that I have written to shareholders, we have been able to report on a marked step forward from the year before. We are building a high quality, high performing Group and we are very excited about the year ahead. Our efforts are creating better, more reliable and future-facing businesses for you – our shareholders – and we are very grateful for your engagement and continued support.

Matthew Melhuish
Chief Executive Officer
and Executive Director

FINANCIAL HIGHLIGHTS

NET REVENUE
UP 3.5% TO
$103.7m

OPERATING EBITDA
UP 29.8% TO
$13.5m

NET PROFIT AFTER TAX
UP 372.2% TO
$8.5m

EARNINGS PER SHARE
9.3 CPS

FY18 DIVIDENDS
4 CPS
FULLY FRANKED

ORCHARD ACQUISITION

2 FEBRUARY 2018

BUSINESS AND CAPABILITIES

INSIGHT AND STRATEGY

CREATIVE AND CONTENT

INTEGRATED COMMUNICATIONS AND PR

DIGITAL

BUSINESS OVERVIEW

HOME OF THE LONG IDEA

Brand strategy, integrated campaign development, research, creative advertising – creation and production, digital and interactive marketing, short and long form content, retail catalogues, all forms of production, design, CRM/direct marketing, proprietary photographic studios and BMF Plus innovation suite.

IDEAS WORTH TALKING ABOUT

Frank, a creative agency, helping brands become part of conversations, or to kick-start conversations of their own. Insight-led, channel neutral, integrated campaigns. Ideas worth talking about. We call it Talkability®.

EXPERTS IN ONLINE RESEARCH AND DATA DELIVERY

Digital research, 100,000+ member online community and insights through multi-media sources.

MONETISING THE WORLD'S DIGITAL AUDIENCE

Online programmatic media and advertising network with advertiser and publisher monetisation solutions.

INFORMED. STRATEGIC. CONNECTED.

Engaging governments, managing critical issues, and communicating with strategy to build reputation and influence.

WE HELP BRANDS BETTER CONNECT AND ENGAGE WITH CUSTOMERS

Global integrated communications and public relations, B2B and B2C, innovation and tech focus with specialist industry and sector practices including media, influencer and analyst relations, crisis management, digital marketing, branding, content strategy, insights and analytics, and cause related marketing.

COMMUNICATION THAT CREATES A SHARED SENSE OF PURPOSE

Integrated communications, events, digital solutions, internal communications, brand strategy, video/content, investor relations and stakeholder communications.

EVERYTHING COMMUNICATES

Business and brand strategy, communications strategy, customer experience strategy, brand identity development, creative ideation, campaign development and integrated campaign production across film, digital, stills, direct, retail, experiential and content.

TO HELP CLIENTS FIND THEIR EDGE AND UNLEASH THEIR HIDDEN POTENTIAL

Strategy, insight and research in innovation, branding and communications and channel marketing.

DIGITAL TRANSFORMATION POWERED BY CREATIVITY

Digital strategy, integrated campaign development, digital marketing, websites, content development, social, data, content management systems, technology integration, marketing automation and applications, all delivered with a customer experience focus.

FY2018 GEOGRAPHIC CONTRIBUTION FROM OPERATING COMPANIES

INTERNATIONAL MARKETS CONTRIBUTION

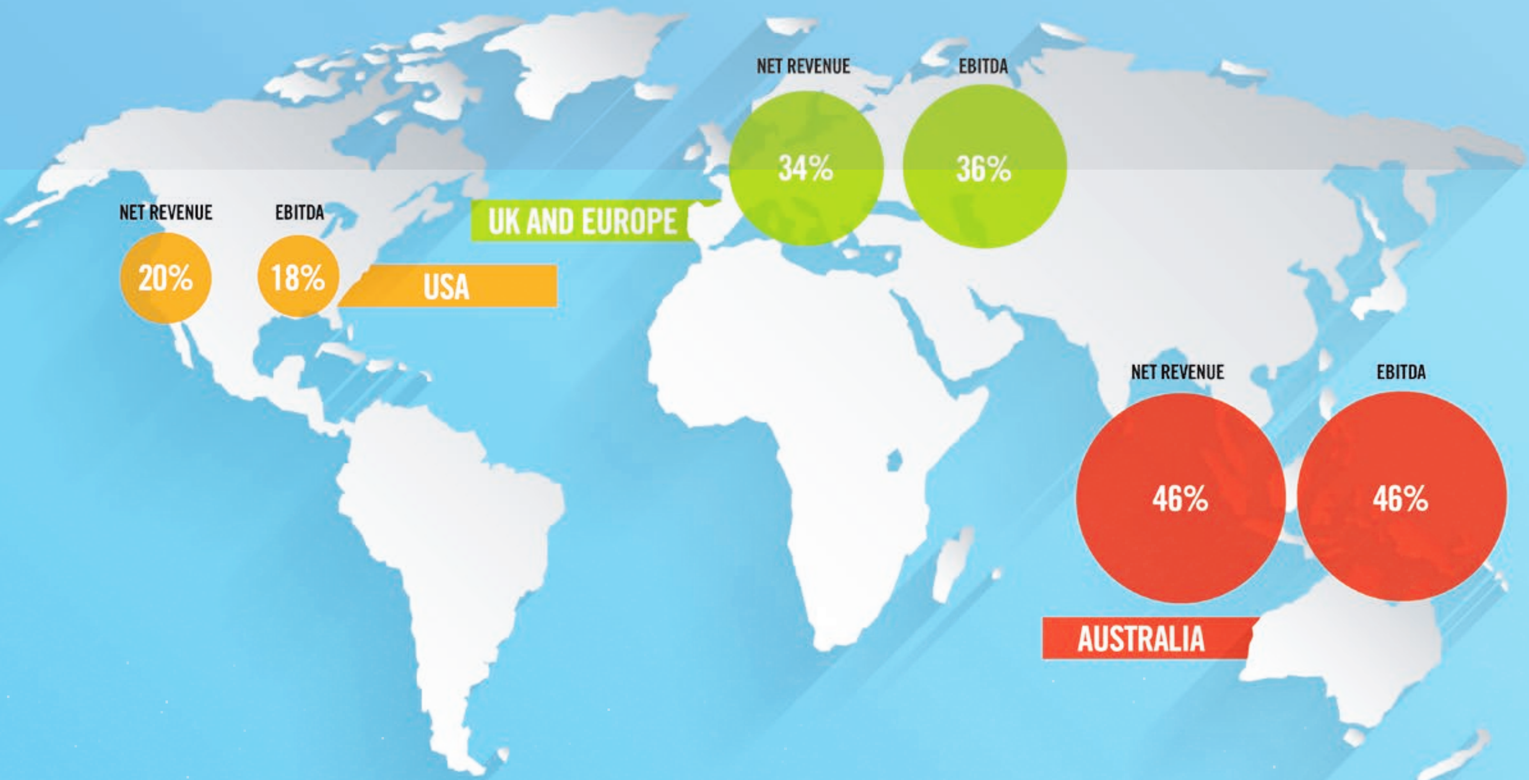
54% of Revenue and
54% of EBITDA in FY2018.

STRENGTH IN AUSTRALIA

Increase in Australian contribution to revenue and EBITDA year on year due to Orchard acquisition.

USA ON THE UP

Growth in USA contribution due to strong growth from Hotwire and OB Media.



REVENUE BY INDUSTRY

CLIENTS ARE REPRESENTED ACROSS MANY INDUSTRIES

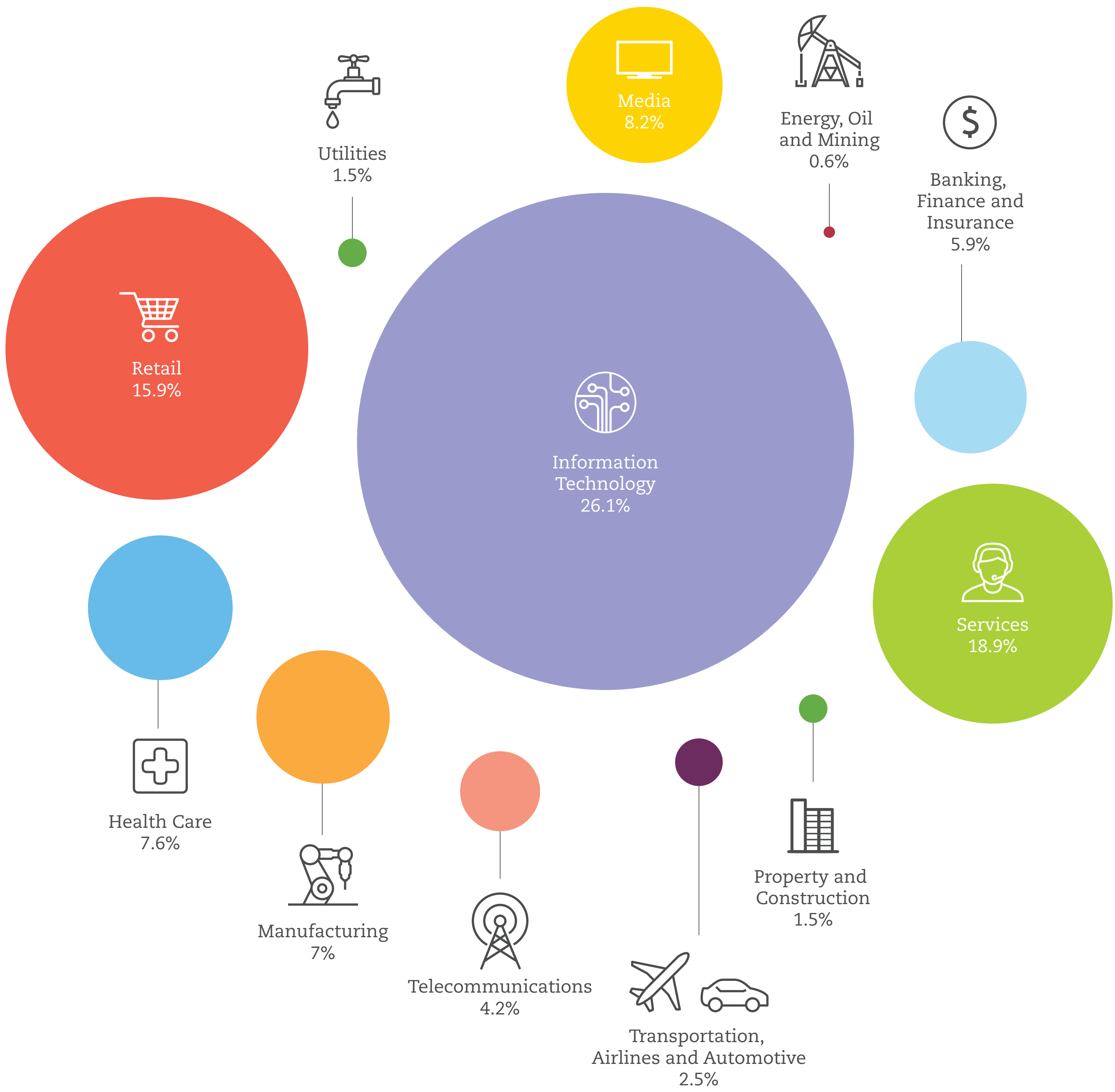
Strength in growing industries of Information Technology and Healthcare.

DIVERSE CLIENT RELATIONSHIPS

Largest client in Group – 13% of revenue with over 700 individual client relationships.

INTEGRATED CLIENTS

Top 10 clients represent 24% of Group revenue.



ENHANCING THE ENERO OFFER

Orchard's digital capability complements and strengthens the Enero Group offering, helping us drive the next phase of growth.

WELCOMING ORCHARD INTO THE ENERO GROUP

In February 2018, Enero acquired of one of Australia's leading independent creative technology agencies, Orchard Marketing Pty Limited, otherwise known as Orchard.

ABOUT ORCHARD

Orchard offers leading-edge digital and creative technology services across a global client base, including brands such as Electrolux, Hyundai, Asaleo Care, GlaxoSmithKline, Merck Sharp & Dohme, Carnival Cruises and Boehringer Ingelheim.

Orchard helps businesses to deliver better digital customer experiences. Orchard's approach complements the Enero Groups' offer, by offering clients:

- technology consultancy and advice;
- platforms (everything from eCommerce sites through product information management systems);
- ideation and execution of communication campaigns; and
- the building, managing and nurturing of communities through content, whether long-form editorial or short-form content.

SPECIALISTS IN AUTOMOTIVE, RETAIL AND HEALTH AND WELLBEING

Orchard is strong in health and wellness, a category experiencing significant growth. Health and wellbeing is a highly regulated category and Orchard has developed a strong offering, including a team of specialists who understand the ins and outs of the market. Orchard's clients in this space include major pharmaceutical companies such as Boehringer Ingelheim, MSD and CSL Behring, as well as over-the-counter and consumer health brands such as Flordis, Cetaphil and Asaleo Care.

Additionally, Orchard brings expertise and focus in automotive, being the digital agency of record for Hyundai; and experience in partnering with retail brands such as IKEA, Schwarzkopf, Taubmans and Obela.

A STRATEGIC ADVANTAGE

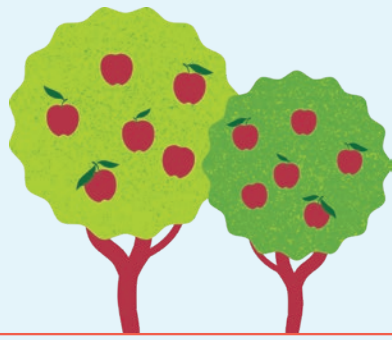
Orchard is already working with Enero's partner agencies, across a range of clients, and the team has moved into the Enero building. For the Orchard leadership team, there are significant advantages in leveraging expertise across other Enero agencies and bringing those skills and services to clients, whether it be research support from The Leading Edge or brand support from Naked and BMF. There's a great chemistry between the teams. For the broader team, Enero's energy, vibe and environment are highlights.

AN EXCITING NEW CHAPTER

Joining Enero supports Orchard to:

- collaborate with other experts and leaders in the field who can help the team grow and develop;
- leverage group opportunities; and
- expand the current offering to clients and add more value, with additional products and services.

This is the start of an exciting new chapter, with Orchard set to deliver more digital transformation success stories in the coming years.



"Orchard is an ideal addition to help us drive the next phase of growth by expanding and deepening our core service offerings across the Group. We look forward to incorporating Orchard's tech and digital capabilities within our midst while also broadening our global client base in Australia and the USA. Having the Orchard team within the Group will create terrific opportunities to cross-pollinate our thinking and services across all agencies and geographies. We have been impressed with the Orchard management team, what they have achieved to date and we're excited about their plans for future growth."

MATTHEW MELHUISH
Enero Group CEO

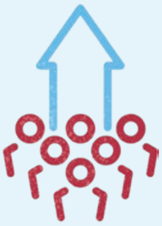
WANT TO KNOW MORE ABOUT ORCHARD? SOME FUN FACTS:

Orchard has a multicultural team, with people from 12 different countries.

There's a 25-year age gap between the oldest and youngest Orchard staff members.

The four founders (still part of the business) have worked together for 17 years across three agencies (Spike, Grey and Orchard) – and are still good friends!

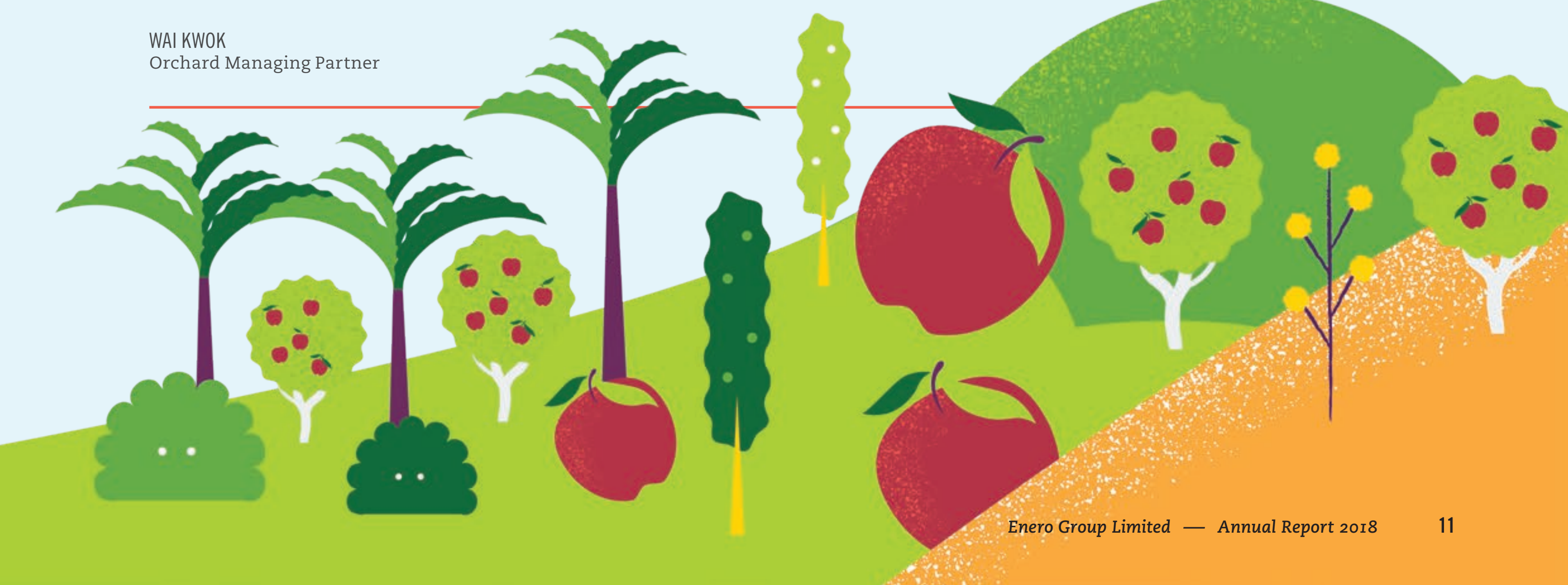
Orchard operates with 100% insourcing (vs the trend to outsource), ensuring robust delivery and high quality standards.



Orchard has a team of 75 and is growing fast, with a head office in Sydney and an office in New York which has just celebrated its third birthday.

"While Orchard has thrived as an independent creative technology leader for more than a decade, we feel that Enero is the right partner to expand our capabilities and resources to better service our clients' evolving needs and to further support our growth plans in Australia, the USA and other markets. We are also pleased that being part of the Enero Group will mean that the Orchard brand will continue to grow here and internationally – allowing us to provide greater opportunities and experiences for our team."

WAI KWOK
Orchard Managing Partner



CLIENT COLLABORATION

How we're collaborating across the business to deliver more for our clients.

ANDY WEST ON HOTWIRE'S 'BORDERLESS THINKING'

HOTWIRE
THE GLOBAL COMMUNICATIONS AGENCY

Borderless thinking is more than a business strategy, it's a mindset – it's what defines us as an agency. This thinking influences how we show up with clients, with our teams; and it's what fuels our growth.

More than just rhetoric, we build people and culture programs around borderless thinking, through programs such as HotwireGo. HotwireGo provides opportunities for team members to visit offices across the world and through our annual boot camp, which this year saw more than 250 people from 20 countries attend a themed 'Free your Mind' festival in the UK.

The mindset, attitudes and behaviours this creates drives our international business, extending beyond our offices into our global network of partners and affiliates.

With borderless thinking, we deliver limitless campaigns for some of the world's most innovative companies.

MOCCONA AND L'OR

Naked has been working closely with L'OR for a number of years, helping establish L'OR in the Australian market and launching its new aluminium capsule. In 2018, it also started working with Moccona with Naked developing a campaign to launch the collaboration with Peter Alexander. In order to make the jar designs famous a strong PR and influencer strategy was required. Naked brought Frank in to help amplify the message, with Frank handling all PR around the launch event and partnership.

NAKED Frank.

In April, Naked and Frank worked again on L'OR to activate Paris By Night. With Naked again developing the campaign, Frank PR helped amplify through media.

To deliver successful campaigns, the team worked as one and focused on streamlining client communications. Naked's creative team were able to develop collateral for media and influencer activity alongside the campaign material, sometimes being briefed directly by Frank. This helped to ensure consistency of messages and streamlined costs.

To ensure optimum collaboration, the team prioritised regular, and often informal, dialogue before any discussion with the client – which avoided duplication and made client communication easier. Importantly, it also meant they were quick to address challenges and provide solutions.

"We value Hotwire for this borderless approach and for the flexibility they bring as we scale our PR operations in line with our business growth."

JONATHAN DINKELDEIN
Director EMEA Marketing Communications and Public Affairs, Eaton

EATON

For multinational power management company Eaton Corporation, borderless thinking helped us to set the right strategic measurement framework and deliver results across multiple markets. Eaton had never before embarked on a co-ordinated international campaign with clear metrics for public relations across Europe, the Middle East and Africa (EMEA). Since Hotwire became involved and applied borderless thinking, Eaton was able to reach new markets including the Nordics, USA, UAE, Russia and Africa.

"Hotwire has been a key partner for our team over the years. The in-house talent has allowed us to flex in various situations, making us a strong voice in the industry."

ANNIE WOLFSON
Head of Industry Marketing for Partnership Marketing, Facebook

FACEBOOK

Hotwire and Facebook have been partners for more than five years. The Hotwire team supports industry marketing for Facebook's publisher solutions business unit within the US and EMEA. Borderless thinking helped us to provide market expertise and global presence to Facebook and jump in to drive a global speaking strategy.

"Hotwire has been a key partner for our team over the years. The in-house talent has allowed us to flex in various situations, making us a strong voice in the industry."

REDWOOD GROUP

Global technology solutions provider Redwood Group, an existing client of Hotwire, asked for extra support with its brand research to enable business growth.

Hotwire was able to collaborate with The Leading Edge to develop a stronger brand and customer experience strategy. Together, the team uncovered what the brand stood for, evaluated the customer journey and provided actionable recommendations. Seamless integration between the two teams provided Redwood with a single source of insight for all strategy and execution.

By partnering within the Group to provide a new service, Hotwire deepened its client relationship and The Leading Edge secured a strategic project and experience in a new sector.

THE UNIVERSITY OF NEW SOUTH WALES (UNSW)

Over the past 18 months UNSW has grown into one of Precinct's largest clients. Creative projects have spanned campaigns, websites and online tools, as well as a new brand for UNSW's Entrepreneurship Founders Program. Having experts in research and digital under the one roof has been invaluable in servicing UNSW's needs.

The Leading Edge played an integral part in helping Precinct deliver an undergraduate campaign to recruit new school leavers by conducting focus groups with current school students, informing Precinct's strategy and design development.

With Orchard joining the Enero Group, Precinct leveraged their expertise in UX and digital to develop end-to-end digital tools for student engagement and course selection.

GLOBAL MOBILITY

A snapshot of Enero team members who've moved across borders this year, bringing fresh insights and experiences to agencies and clients, while furthering their careers and keeping valuable talent within the Group.

LAURA JONES

Managing Director, Frank

I moved to Sydney to take on the role of Managing Director (MD) at Frank, at the beginning of 2018, having worked at Frank in the United Kingdom (UK) for just under four years. The previous MD made the decision to move back to the UK, so I was offered the opportunity to share the role with Amy Whittaker who was already in the Frank Australia business. The chance to run the Australia office was too great an opportunity to pass up. The weather and beaches in Australia were a little bit of a pull, too!

Since I've been here, I've been surprised by how many brands I'd never come across in this market. I've spent a lot of time familiarising myself with local brands and retailers, which hasn't been so positive for my bank balance. Before I arrived in Sydney, I also thought I was a morning person. Meeting people who set their alarms at 4.45am for a personal training session has made me realise I'm anything but!

ELEANOR SAMPSON

Senior Programme Director, Hotwire

I started at Hotwire in the UK in 2010, then moved to Sydney in 2014. Having worked for three years in a very specific team in London, working with marketing, retail and ad-tech clients, I wanted to expand my experience into new areas. I realised I needed a new challenge, but wanted to stay within the Company due to the great culture, work ethic and ambition. The move to Sydney offered me the chance to work with different clients, be part of a small start-up business, and learn how to operate in the Asia-Pacific market. I worked for four years with the Australian Hotwire team. Then after welcoming our second baby in Sydney, my partner and I decided to move back to the UK to be closer to our families.

Coming from Australia where many of our clients operated as part of 100% remote pan-Asia-Pacific teams, it's been exciting coming back to London with ideas about how to implement Hotwire's new Thoughtful Working policy. This benefits my own work-life balance and productivity, as well as our clients. I now live in Essex and see my Grandma for coffee once a week. Seeing her with her two great-grandchildren makes it worth saying goodbye to Sydney's beautiful beaches.

With strategic services being a growing area for our clients in Australia, I decided this is where I wanted to focus my career. Hotwire London recently launched a new Corporate Strategy Services Practice which I've now joined, giving me opportunity to develop services, products and best practice from the ground up. Next month will be my eight-year anniversary with Hotwire. Moving within the business and overseas has provided the opportunity to develop more specialised skills, in a larger office and with exciting clients.

LAVINIA HAANE

Senior Program Manager, Hotwire

I'd been working with Hotwire for five years before moving from Munich to London. In 2015, I came to London as part of the HotwireGo program. I spent four weeks in the London office and fell in love with the city and the team here. It was always part of my plan to work abroad, so I used the Hotwire network to connect with the UK team and start conversations around working in London. It's been seven months now and I'm loving it.

London has always been my favourite European city (apart from Munich, obviously). I always wanted to live here. Additionally, international experience within a large team is great for my professional development.

In terms of working culture and style, I knew there were a few differences between the German and London offices. However, getting used to the new environment was not as hard as I'd anticipated – apart from the London office's addiction to crisps (chips for the rest of the world), which I can't understand. No surprise: The beer is better in Germany. Big surprise: It doesn't rain as much as everyone thinks.

BORNA ROBAEI

Finance Manager, The Leading Edge

I moved from Sydney in November 2015, where I was working at Precinct, to London, to take up the role of Finance Manager at The Leading Edge and Naked Communications. I've been working within Enero Group for over six years.

After completing my CPA qualification in Australia, I expressed an interest in living and working overseas. Fortunately, a suitable role became available in London and Enero was key in connecting me with the UK Finance Director and helping to facilitate the transfer.

The new role represented a large step up in terms of responsibility and helped further my development, as well as providing an opportunity to work with a new team.

There's never a shortage of things to do in London, whether it's watching sport, visiting a gallery or a street food market. Working overseas, particularly in Europe, has been fantastic in terms of opening up travel opportunities. My partner and I have taken full advantage, with over 20 overseas trips in the past three years.

FIONA CHILCOTT

Group Director, People and Culture, Hotwire and Enero

We moved from Sydney to San Francisco and I have been working for Enero Group for just under 12 months. There was an opportunity to support our Hotwire business more closely and spread the location of the Enero executive team.

For me this opportunity provides a way to better understand the communication and public relations sector, and get closer to this important business within the Group portfolio.

The move had been an amazing opportunity for me and my family to see and experience a different part of the world. We were thrilled to move to San Francisco, which is such an incredible city and full of friendly people. Growing up, I moved around a lot and spent time overseas. For my two boys, they can attend a local American school and experience so many new and different things. Experiencing a new culture is an invaluable growth opportunity. We're also looking forward to being close to the ski fields and teaching our boys to ski or snowboard.

BOARD OF DIRECTORS

JOHN PORTER
Independent
Non-Executive
Chairman

ANOUK DARLING
Independent
Non-Executive
Director

MATTHEW MELHUISH
CEO and
Executive
Director

SUSAN MCINTOSH
Non-Executive
Director

ROGER AMOS
Independent
Non-Executive
Director
Deputy Chairman

DAVID BRAIN
Independent
Non-Executive
Director

FINANCIAL REPORT

for the year ended 30 June 2018

Directors' Report

The Directors present their report, together with the financial statements of Enero Group Limited (**the Company**) and of the Group, being the Company and its controlled entities, for the year ended 30 June 2018; 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 Enero 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 10 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 CEO of Telenet Group Holding NV. 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. Matthew has over 30 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 was Chairman of the EFFIEs Advertising Effectiveness Awards for 10 years and he has played key roles 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 Médecins Sans Frontières/ Doctors without Borders (MSF) for 10 years.

Susan McIntosh – Non-Executive Director

Susan was appointed as a Non-Executive Director of the Company on 2 June 2000. Susan has more than 35 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 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 Chairman of Contango Asset Management Limited and a member of its audit committee. He is a Director of 3P Learning Limited, Chairman of its audit committee and a member of its remuneration 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 was the Chairman of Opera Foundation Australia from 2009 to 2013 and is 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 Fellow of the Australian Institute of Company Directors. 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 has over 20 years' experience in marketing and brand strategy. Anouk is a Director of Macquarie Telecom Limited as well as a member of its Audit and Risk Committee and its Remuneration and Nomination Committee. Anouk is also a Board member of Discovery Holiday Parks and a member of its People and Remuneration Committee as well as a Non-Executive Director of Healthy Life Group, Ngahuia Group Ltd and Food Service Group Australia. Anouk consults as an operating partner to Allegro Funds across its portfolio companies. Her most recent Executive role was Chair of Moon Communications Group, a business which she worked in for 12 years, where she firstly held the role of Strategy Director and then served as Chief Executive Officer. Anouk is a member of the Audit and Risk Committee.

David Brain – Independent Non-Executive Director

David was appointed as a Non-Executive Director of the Company on 10 May 2018. David has over 25 years' experience in public relations and integrated communications. David's most recent Executive role was a Director of the Group supervisory board of Edelman, the world's largest Public Relations firm; and he was a member of its global management board. During 13 years at Edelman, he was CEO of the Europe Middle East & Africa (EMEA) region and. latterly, CEO of Asia Pacific Middle East & Africa (APACMEA). Prior to Edelman, David was Co-CEO of Weber-Shandwick UK and Managing Director at Burson-Marsteller UK. He has also worked in Corporate Affairs at Visa International and as a planner in advertising. David is currently an Advisory Board member of The Spinoff, New Zealand's most successful online news magazine; and an investor and Advisory Board member of Parkable, a New Zealand based new economy business.

Company Secretary
Brendan York was appointed Company Secretary on 1 July 2012. He is also the Group Finance Director of the Group. Brendan is a Chartered Accountant and has a Bachelor of Business Administration and a Bachelor of Commerce from Macquarie University.

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 and insights, advertising, digital, public relations, communications planning, design, events management, direct marketing and corporate communications.

Corporate Governance
The Directors support and have adhered to the principles of corporate governance.

A copy of the Company's full 2018 Corporate Governance Statement, which provides detailed information about governance, and a copy of the Company's Appendix 4G which sets out the Company's compliance with the recommendations in the third edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Principles), is available on the corporate governance section of the Company's website at http://www.enero.com/shareholder-centre/corporate-governance.

Events subsequent to balance 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.

Please refer to Note 27 Subsequent events for further details.

Likely developments
The Group will continue to focus on its strategy outlined in the operating and financial review. The Group will specifically focus on new business conversion to increase net revenues and building scale and presence in the UK and USA markets to ensure revenue and Operating EBITDA contributions across the three geographic regions are evenly weighted. The Group will also continue to assess acquisition opportunities as they arise.

Operating and financial review
Operations of the Group
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 service pillars:

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

Financial performance for the year
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 Orchard Marketing since February 2018; offset by

– impact of closure of Naked Communications London and New York offices in March 2017.

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:

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 Street, Pyrmont;
- incidental acquisition costs relating to the acquisition of Eastwick Communications; and
- contingent consideration fair value losses on:
  - the revaluation of future contingent consideration payable to the vendors of Eastwick Communications; and
  - payments made to historical Tranche 3a/3b contingent consideration holders paid in May 2017.

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 acquisition opportunities that are aligned with Group strategy from a geographical or expansion of services perspective.

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 21 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 21 Acquisition for details.

Contingent Consideration Liabilities

The Company entered into contingent consideration arrangements in relation to its acquisitions of Orchard Marketing on 2 February 2018 and Eastwick Communications on 29 September 2016.

The Company structures its acquisitions using contingent consideration as it incentivises the sellers to drive future performance of the acquired business by linking the total purchase price to agreed future financial targets of that business.

As at 30 June 2018, the Company's estimated non-current contingent consideration liability is $25.8 million.

Cash and Debt

In thousands of AUD	2018	2017
Cash and cash equivalents	34,379	32,512
Hire purchase liabilities	(1,916)	(3,267)
Contingent consideration liabilities	(25,802)	(10,143)
Net cash	6,661	19,102

The Group has $34.4 million in cash as at 30 June 2018. Apart from Contingent consideration liabilities, the Group's debt balance is limited to finance leases over leasehold improvements.

Cash flow

The Group implemented strict working capital management to ensure efficient conversion of EBITDA to cash and has delivered positive operating cash flows of $14.2 million from an Operating EBITDA of $13.5 million for the year ended 30 June 2018 (105% cash conversion). The Group targets a cash conversion of 85% each financial year.

Strategy and prospects

The Group's primary objective is to become a boutique force in modern marketing and communications focused on four key service pillars – strategy, research and insight, creative and content, digital, integrated communications and public relations – serviced from three key geographic locations – Australia, UK and USA – solving clients' marketing needs through innovative solutions.

Please refer to page 7 for further details on the strategy and prospects of the Group.

Basis of preparation

The Directors' 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, contingent consideration fair value loss, non-recurring dual occupancy costs and incidental acquisition costs. Operating EBITDA, reconciled in the table on page 19, 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.

Dividends

Dividends declared and paid by the Company to members since the end of the previous financial year were:

	Cents per share	Total amount AUD '000	Date of payment
Fully franked interim dividend	1.5	1,284	15 March 2018

Subsequent to the balance sheet date, the Directors have declared a final dividend, with respect to ordinary shares, of 2.5 cents per share, fully franked with a payment date of 8 October 2018. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2018 but will be recognised in the subsequent financial period.

For further details refer to Note 15 Capital and reserves in this annual report.

Issue of shares and share rights

Shares issued on exercise of SAR

During the year ended 30 June 2018, a total of 297,184 shares (2017: 1,636,718 shares) were transferred from a trust account held by the Company to the employees of the Group on exercise of Share Appreciation Rights.

As at 30 June 2018, the Company has 1,294,301 shares (30 June 2017: 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.

Share Appreciation Rights

Share Appreciation Rights issued

During the year ended 30 June 2018, a total of 5,000,000 Share Appreciation Rights (30 June 2017: Nil) were issued to senior employees of the Group under the existing Share Appreciation Rights plan.

Unissued shares under Share Appreciation Rights plan

At the date of this report, unissued shares of the Company under the Share Appreciation Rights plan are:

Expiry date	Number of SARs	VWAP (for the 20 business days prior to the grant)
30 September 2018	1,399,998	$0.70
30 September 2018	1,666,664	$1.04
30 September 2019	1,666,664	$1.04
30 September 2020	1,666,672	$1.04
Total	6,399,998	

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

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 were:

	Board meetings		Audit and Risk Committee meetings		Remuneration and Nomination Committee meetings	
	A	B	A	B	A	B
John Porter	4	7	–	–	–	2
Matthew Melhuish	7	7	–	–	–	–
Susan McIntosh	7	7	4	4	2	2
Roger Amos	7	7	4	4	2	2
Anouk Darling	7	7	4	4	–	–
David Brain	1	1	–	–	–	–

A = Number of meetings attended.

B = Number of meetings held during the time the Director held office or was a member of the Committee during the year.

Directors' interests

The relevant interests of each Director in the shares or SARs issued by the Group, 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, are as follows:

Director	Ordinary shares	Share Appreciation Rights
John Porter	270,833	Nil
Matthew Melhuish	1,546,080	1,333,334
Susan McIntosh	122,223	Nil
Roger Amos	31,390	Nil
Anouk Darling	19,607	Nil
David Brain	Nil	Nil
Total	1,990,133	1,333,334

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, Susan McIntosh, Roger Amos, Anouk Darling, David Brain and Company Secretary Brendan York, 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, subject to the Corporations Act 2001, 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 expenses 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 willful 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 contracts.

Risk management

The Board has established a risk management policy for the management and oversight of risk and has delegated responsibility of compliance and internal control to the Audit and Risk Committee.

Environmental regulation and performance

The Board believes that the Group has adequate systems in place for the management of its environmental requirements.

Non-audit services

During the year KPMG, the Group’s auditor, has performed certain other services in addition to the audit and review of the financial statements.

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 and Risk 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:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit and Risk Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- non-audit services provided do not undermine the general principles 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 Group, acting as an advocate for the Group, or jointly sharing risks and rewards.

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 30 Auditor’s remuneration of the notes to the financial statements.

	2018 $	2017 $
Services other than statutory audit		
Auditors of the Company		
Taxation compliance services:		
KPMG Australia	8,000	–
Overseas KPMG firms	181,000	186,000
Total services other than statutory audit	189,000	186,000

Auditor independence

The Lead Auditor’s independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 79, and forms part of the Directors’ Report for the year ended 30 June 2018.

Rounding off

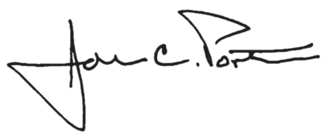
The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors’ Reports) Instrument 2016/191 and, in accordance with that Class Order, amounts in the consolidated financial statements and Directors’ Report have been rounded off to the nearest thousand dollars, unless otherwise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

Remuneration Report

The Remuneration Report on page 23 forms part of this Directors’ Report.

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

Dated at Sydney this 28th day of August 2018.



John Porter

Chairman

Remuneration Report – Audited

Contents

1 Introduction

The Directors of Enero Group Limited present this Remuneration Report for the Group for the year ended 30 June 2018. The information provided in the Remuneration Report has been audited as required by section 308(3C) of the Corporations Act 2001 and forms part of the Directors' Report.

The Remuneration Report outlines practices and specific remuneration arrangements that apply to Key Management Personnel (KMP) in accordance with the requirements of the Corporations Act 2001 and explains how the Company's financial performance has driven remuneration outcomes.

2 Key Management Personnel (KMP) disclosed in this report

KMP comprise the Directors of the Company and Executives. The KMP covered in this Remuneration Report are those people having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. The table below outlines the KMP at any time during the financial year; and unless otherwise indicated, they were KMP for the entire year.

Name	Role
Non-Executive Directors	
John Porter	Non-Executive Director (Chairman)
Roger Amos	Non-Executive Director (Deputy Chairman)
Susan McIntosh	Non-Executive Director
Anouk Darling	Non-Executive Director
David Brain(i)	Non-Executive Director
Executives	
Matthew Melhuish	Chief Executive Officer
Brendan York	Group Finance Director
Fiona Chilcott(ii)	Group Director People and Culture
Stephen Watson	Group Strategy and Operations Director

(i) David Brain was appointed as a Director on 10 May 2018.
(ii) Fiona Chilcott was appointed on 23 August 2017 and became KMP on that date.

3 Remuneration Governance

The Board has established the Remuneration and Nominations Committee ('Committee'). It is responsible for making recommendations on remuneration matters to the Board on:

- the over-arching executive remuneration framework;
- operation of the incentive plans which apply to Executives including key performance indicators and performance hurdles;
- remuneration levels of Company Executives and Subsidiary Executives;
- appointment of the Chief Executive Officer, senior Executives and Directors themselves; and
- Non-Executive Director fees.

The Committee's objective is to ensure that remuneration policies and structures are fair, competitive to attract suitably qualified candidates, reward the achievement of strategic short-term and long-term objectives and achieve long-term value creation for shareholders.

The Corporate Governance Statement (available in the Corporate Governance section of the Company's website) provides further information on the role of the Committee.

There were no services used from remuneration consultants during the year ended 30 June 2018.

4 Executive Remuneration policy and framework

The objective of the Group's executive reward framework is to attract, motivate and retain employees with the required capabilities and experience to ensure the delivery of business strategy aligning with the interests of shareholders.

The Executive Remuneration framework includes the Company Executives and the subsidiary Executives to ensure alignment across all levels of the Group.

The framework aligns executive reward with the achievement of strategic objectives resulting in remuneration structures taking into account:

- the responsibility, performance and experience of key management personnel;
- the key management personnel's ability to control the relevant Company's performance; and
- the Group's performance, including:
  - the Group's earnings with profit a core component of remuneration design;
  - the growth in share price and delivering constant returns on shareholder wealth; and
  - the Group's achievement of strategic objectives.

For Company Executives, the remuneration framework currently has the following components:

- fixed remuneration – comprising base pay, benefits and superannuation;
- short-term incentive – comprising an annual cash bonus; and
- long-term incentive – equity-based Share Appreciation Rights Plan.

For Subsidiary Executives, the remuneration framework currently has the following components:

- fixed remuneration – comprising base pay, benefits and superannuation;
- short-term incentive – comprising either an annual cash bonus through an EBITDA sharing arrangement or a retained equity interest in the subsidiary entitling a dividend stream linked to profitability; and
- long-term incentive – equity-based Share Appreciation Rights Plan.

The remuneration framework for Subsidiary Executives has been disclosed in this report despite such Executives not meeting the definition of KMP.

4(a) 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), as well as employer contributions to superannuation and 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 Group and ensures competitive market salaries are provided. An Executive's remuneration may also be reviewed on promotion.
There are no guaranteed fixed remuneration increases included in any Executive contracts.

4(b) Performance-linked remuneration

Performance-linked remuneration includes both short-term incentives (**STI**) and long-term incentives (**LTI**) and is designed to reward KMPs, Executives, Subsidiary Executives and key leadership for meeting or exceeding financial, strategic and personal targets.

The STI for the CEO and Company Executives align Executives with the creation of shareholder value through driving top-line revenue growth along with Operating EBITDA margin improvements.

Short-term incentives (STI):

The purpose of STI is to motivate and reward Executives for contributing to the delivery of annual business performance as assessed against financial and non-financial measures.

Participant	Performance measures and rationale
CEO	The STI for the CEO is an annual cash-based maximum short-term incentive payment of 70% of the CEO's fixed remuneration determined by the achievement of revenue and Operating EBITDA hurdles set by the Remuneration and Nomination Committee. The hurdles are set each financial year determined by reference to business priorities.
Company Executives	The STI for Company Executives is an annual cash-based maximum short-term incentive payment of 70% of the Executive's fixed remuneration determined by the achievement of revenue and Operating EBITDA hurdles set by the Remuneration and Nomination Committee. The hurdles are set each financial year determined by reference to business priorities.
Subsidiary Executives	The STI for Subsidiary Executives is linked to the financial performance and direct profitability of their relevant subsidiary. For each subsidiary of the Company (or group of subsidiaries known as an Operating Business Unit) the STI has either one of the following structures: – an EBITDA sharing arrangement such that the CEO and key senior leadership of that subsidiary are entitled to a share of EBITDA agreed by the Remuneration and Nomination Committee each year. A component of the share of EBITDA is also subject to the achievement of pre-determined KPIs for both the individual and Operating Brand. The share of EBITDA is set each financial year by the Remuneration and Nomination Committee. This incentive is paid annually in cash after the end of the financial year; or – a direct equity interest in the subsidiary, entitling the holder to a dividend stream linked to financial performance of that subsidiary. Dividend payments are made to shareholders in accordance with that Subsidiary's constitution.

The STIs (excluding dividends from direct equity interests in subsidiaries) are paid in cash following the end of the financial year and approval from the Remuneration and Nomination Committee. The Company Executives and Subsidiary Executives are not contractually entitled to the STI in their respective employment agreements and the Remuneration and Nomination Committee retains discretion to withdraw or amend the STI at any time.

The Remuneration and Nomination Committee has the discretion to take into account any significant items in determining whether the financial KPIs have been achieved, where it is considered appropriate for linking remuneration reward to Company performance.

Long-term incentives (LTI):

The purpose of the LTI is to align Executive remuneration with long-term shareholder value and the performance of the Group. The LTI is provided as an equity-based incentive in the Company under the terms of the Share Appreciation Rights Plan (SAR) (see Note 29).

Description	The SAR Plan grants rights to shares in the Company on the achievement of appreciation in the Company's share price over the vesting period. Enero's Board may determine whether or not the grant of rights is conditional on the achievement of performance hurdles (including service conditions), and if so the nature of those hurdles. No dividends or voting rights are attached to the SARs.
Eligibility	The plan allows for the Board to determine who is entitled to participate in the SAR and it may grant rights accordingly.
Performance period	The performance period for the LTI is generally three years.
Rights	The exercise of each right will entitle the rights holder to receive a fraction of an ordinary share based on a conversion formula of E = (A – B) / A, where: – E is the share right entitlement; – 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. If A – B is less than or equal to zero, the share right will not vest and will immediately lapse on the applicable vesting date. Rights expire at 15 business days after the relevant vesting date or the termination of the individual's employment.
Other conditions	Cessation of employment will result in the lapsing of any unvested SARs. One share right shall never convert into more than one share in the capital of the Company. The Board may exercise discretion on early vesting of rights in the event of a change of control of the Group.

Refer to the table below for a summary of SARs on issue.

Refer to Section 8 Share-based payments of the Remuneration Report for further information regarding the SARs.

Summary of Share Appreciation Rights on issue:

Issue Date	**16 June 2015 (i)**	**20 October 2015**	**19 October 2017**
SARs issued	1,000,000	4,700,000	5,000,000
Participants	CEO	Senior Executives	CEO and Senior Executives
VWAP for the 20 business days prior to the grant (B)	70 cents	70 cents	$1.04
Vesting dates: 20 business days after the release of the Group financial report for the year ended:			
Tranche 1	30 June 2016 – 1/3rd	30 June 2016 – 1/3rd	30 June 2018 – 1/3rd
Tranche 2	30 June 2017 – 1/3rd	30 June 2017 – 1/3rd	30 June 2019 – 1/3rd
Tranche 3	30 June 2018 – 1/3rd	30 June 2018 – 1/3rd	30 June 2020 – 1/3rd
Expiry	30 September 2018	30 September 2018	30 September 2020
Outstanding SARs as at 30 June 2018	333,334	1,066,664	5,000,000

(i) Grant is in relation to SARs provided to the CEO which were issued on 16 June 2015 and subsequently approved by the shareholders on 20 October 2015. The VWAP is for the 20 business days prior to the shareholder approval.

5 Executive service agreements

It is the Group'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 Group 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 Group	Notice period on resignation by Key Management Personnel	Termination payment on termination by Group (i) (ii) (iii) (iv)	Termination payment on resignation by Key Management Personnel (i) (ii) (iv)
CEO	30 June 2019	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
Group Director People and Culture	Rolling	3 months	3 months	3 months base salary	3 months base salary
Group Strategy and Operations Director	Rolling	3 months	3 months	3 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) Executives are entitled to a pro-rata STI payment on termination, except for termination for serious misconduct.

Remuneration details of Executives are set out in Section 7 Directors' and Executive Officers' remuneration.

6 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 2018.

The remuneration of Non-Executive Directors does not include any performance-based pay and they do not participate in any equity-based incentive plans. Directors may 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.

The following Non-Executive Director fees (inclusive of superannuation) have been applied in the years ended 30 June 2018 and 30 June 2017:

	2018 $	2017 S
Base fees – annual		
Chairman	120,000	120,000
Other Non-Executive Directors	75,000	75,000
Committee fees – annual		
Audit and Risk Committee – Chairman	10,000	10,000
Remuneration and Nomination Committee – Chairman	10,000	10,000

Additionally, the Deputy Chairman is paid a $10,000 annual fee for duties conducted under this role.

Total remuneration paid to Non-Executive Directors for the year ending 30 June 2018 amounted to $375,865 (30 June 2017: $390,448), which is 50.1% of the annual aggregate.

Remuneration details of Non-Executive Directors are set out in Section 7 Directors' and Executive Officers' remuneration.

7 Directors' and Executive Officers' remuneration

7(a) Directors' and Executive Officers' short-term cash benefits, post-employment benefits, other long-term remuneration and 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 who are KMPs, are shown in the table below:

		Short-term benefits			Post-employment	Long-term benefits	Share-based payments		
		Salary and fees $	Cash bonus(i) $	Annual leave(iii) $	Superannuation $	Long service leave(iii) $	Value of Share Appreciation Rights(ii) $	Total $	Proportion of total remuneration performance related(iv) %
Non-Executive Directors									
John Porter	2018	120,000	–	–	–	–	–	120,000	–
	2017	120,000	–	–	–	–	–	120,000	–
Susan McIntosh	2018	68,493	–	–	6,507	–	–	75,000	–
	2017	68,493	–	–	6,507	–	–	75,000	–
Roger Amos	2018	86,758	–	–	8,242	–	–	95,000	–
	2017	86,758	–	–	8,242	–	–	95,000	–
Anouk Darling(v)	2018	68,493	–	–	6,507	–	–	75,000	–
	2017	27,749	–	–	2,636	–	–	30,385	–
David Brain(v)	2018	10,865	–	–	–	–	–	10,865	–
	2017	–	–	–	–	–	–	–	–
Max Johnston(vi)	2018	–	–	–	–	–	–	–	–
	2017	22,989	–	–	2,458	–	–	25,447	–
Russel Howcroft(vi)	2018	–	–	–	–	–	–	–	–
	2017	40,745	–	–	3,871	–	–	44,616	–
Executive Director									
Matthew Melhuish,	2018	800,000	164,010	6,891	20,049	14,940	105,038	1,110,928	24.22
Director and CEO	2017	800,000	81,962	88,889	19,616	(19,285)	78,735	1,049,917	15.31
Executives									
Brendan York,	2018	350,000	74,010	3,139	20,049	6,768	66,634	520,600	27.02
Group Finance Director	2017	350,000	36,962	38	19,616	9,988	56,716	473,320	19.79
Fiona Chilcott(vii),	2018	301,090	63,958	12,665	18,703	237	41,686	438,339	24.10
Group Director People and Culture	2017	–	–	–	–	–	–	–	–
Stephen Watson,	2018	350,000	74,010	(1,536)	20,049	5,124	66,634	514,281	27.35
Group Strategy and Operations Director	2017	350,000	36,962	(4,616)	19,616	2,837	56,716	461,515	20.30

(i) The short-term incentive bonus is for performance during the 30 June 2018 financial year using the criteria set out on page 24. The table above includes the expense incurred during the financial year for the bonuses awarded. Refer to the table on page 28 for the bonuses awarded.

(ii) Share Appreciation Rights are calculated at the date of grant using the Monte Carlo simulation 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.

(iii) Amounts represent movements in employee leave entitlements, with a negative balance representing an overall reduction in the employee leave provision compared with the prior year.

(iv) Percentages are based on total remuneration, including equity, cash, post-employment benefits and other compensation.

(v) Anouk Darling and David Brain were appointed as Directors on 6 February 2017 and 10 May 2018 respectively.

(vi) Max Johnson and Russel Howcroft resigned as Directors on 18 October 2016 and 3 February 2017 respectively.

(vii) Fiona Chilcott was appointed 23 August 2017 and became KMP on that date.

(viii) Executives receive salary continuance insurance cover. There are no other benefits offered by the Company

7(b) Performance-related remuneration

Details of the Company's policy in relation to the proportion of remuneration that is performance-based are discussed on page 24.

7(c) STI 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 Group, who are classified Key Management Personnel, are discussed below.

Short-term incentive bonus(i)	Metric	% of fixed remuneration payable(ii)	Included in remuneration $	% vested in year
Company Executives				
Matthew Melhuish	Revenue and Operating EBITDA target	20%	164,010	100
Brendan York	Revenue and Operating EBITDA target	20%	74,010	100
Fiona Chilcott	Revenue and Operating EBITDA target	20%	63,958	100
Stephen Watson	Revenue and Operating EBITDA target	20%	74,010	100

(i) Amounts included in remuneration for the financial year represent the amount that vested in the financial year based on the achievement of specified performance criteria as discussed in Section 4(b) Performance-linked remuneration and are approved following the completion of the reporting period audit.

(ii) Fixed remuneration is salary plus superannuation.

No bonuses were forfeited during the year.

8 Share-based payments

8(a) Share-based payment arrangements granted as remuneration

Details of SARs that were granted as compensation to each Key Management Personnel during the reporting period are as follows:

	Type of rights granted during 2018	Number of rights granted during 2018	Grant date	Fair value per right at grant date $	VWAP (for the 20 business days prior to the grant) $	Expiry date(i)
Company Executives						
Matthew Melhuish	SAR	1,000,000	19 Oct 2017	0.12 – 0.23	1.04	30 Sept 2020
Brendan York	SAR	600,000	19 Oct 2017	0.12 – 0.23	1.04	30 Sept 2020
Fiona Chilcott	SAR	600,000	19 Oct 2017	0.12 – 0.23	1.04	30 Sept 2020
Stephen Watson	SAR	600,000	19 Oct 2017	0.12 – 0.23	1.04	30 Sept 2020

(i) The last expiry date of the rights is 20 business days after the release of the Group's financial report for the year ended 30 June 2020, which is estimated to be around 30 September 2020.

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

Details of the vesting profile of the rights granted as remuneration to a Director of the Company, and each of the KMPs, are shown below:

	Number of rights granted	Type of rights granted	Grant date	% vested in year	% exercised in year	% remaining to vest	Vesting date(i)
Executive Director							
Matthew Melhuish	1,000,000	SAR	16 June 2015	33	33	33	30 Sep 2016, 30 Sep 2017 and 30 Sep 2018
	1,000,000	SAR	19 Oct. 2017	–	–	100	30 Sep 2018, 30 Sep 2019 and 30 Sep 2020
Company Executives							
Brendan York	600,000	SAR	16 June 2015	33	33	33	30 Sep 2016, 30 Sep 2017 and 30 Sep 2018
	600,000	SAR	19 Oct. 2017	–	–	100	30 Sep 2018, 30 Sep 2019 and 30 Sep 2020
Fiona Chilcott	600,000	SAR	19 Oct. 2017	–	–	100	30 Sep 2018, 30 Sep 2019 and 30 Sep 2020
Stephen Watson	600,000	SAR	16 June 2015	33	33	33	30 Sep 2016, 30 Sep 2017 and 30 Sep 2018
	600,000	SAR	19 Oct. 2017	–	–	100	30 Sep 2018, 30 Sep 2019 and 30 Sep 2020

(i) The dates reflected in the table above represent all of the vesting dates for each tranche of rights. The vesting date of the SARs is 20 business days after the release of the Group's preliminary financial report for the relevant financial year. This is estimated to be around 30 September each year.

8(c) Analysis of movements in rights and value of rights exercised

The movement during the reporting period in the number of rights over ordinary shares in Enero Group Limited held, directly, indirectly or beneficially, by each KMP, including their related entities, and value of rights exercised during the year, is as follows:

	Granted held at 1 July 2017	Granted as remuneration in year	Cancelled	Exercised	Granted held at 30 June 2018	Vested during the year	Vested and exercisable at 30 June 2018	Value of rights granted during the year $	Value of rights exercised during the year $
Director									
Matthew Melhuish	666,667	1,000,000	–	(333,333)	1,333,334	333,333	–	178,333	76,667
Executives									
Brendan York	400,000	600,000	–	(200,000)	800,000	200,000	–	107,000	46,000
Fiona Chilcott	–	600,000	–	–	600,000	–	–	107,000	–
Stephen Watson	400,000	600,000	–	(200,000)	800,000	200,000	–	107,000	46,000

No share-based payments held by KMP are vested but not exercisable at 30 June 2018.

No share-based payments were held by KMP related parties.

No terms of equity-settled share-based payment transactions (including 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.

9 Directors' and Executive Officers' holdings of shares

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

	Held at 1 July 2017	Purchases	Issued as remuneration	Received on exercise of rights	Sales	Held at 30 June 2018
Directors						
John Porter	270,833	–	–	–	–	270,833
Matthew Melhuish	1,472,006	–	–	74,074	–	1,546,080
Susan McIntosh	122,223	–	–	–	–	122,223
Roger Amos	31,390	–	–	–	–	31,390
Anouk Darling	–	19,607	–	–	–	19,607
David Brain(i)	–	–	–	–	–	–
Executives						
Brendan York	258,538	–	–	44,444	(96,590)	206,392
Fiona Chilcott(i)	–	–	–	–	–	–
Stephen Watson	247,254	–	–	44,444	(93,117)	198,581

(i) Opening balance represents shares held at the date of appointment.

10 Loans to Key Management Personnel

No loans to Key Management Personnel and their related parties were outstanding at the reporting date.

11 Remuneration and Group performance

The Remuneration and Nomination Committee has given consideration to the Group's performance and consequences on shareholder wealth in the current financial year and the four previous financial years. Financial performance from operations of the current and last four financial years is indicated in the following table:

	30 June 2018	30 June 2017	30 June 2016	30 June 2015	30 June 2014
Metric					
Net Revenue ($'000)	103,685	100,172	113,488	110,347	119,493
Operating EBITDA ($'000)	13,513	10,364	13,220	9,202	8,972
Operating EBITDA margin (%)	13.03%	10.35%	11.65%	8.34%	7.51%
Net Profit to equity holders pre significant items ($'000)	7,846	4,893	6,584	1,525	20
Earnings Per Share pre significant items (cps)	9.3	5.9	8.0	1.9	–
Earnings Per Share basic (cps)	10.1	2.2	8.0	(3.4)	(3.6)
Total Dividends Per Share (cps) (i)	4.0	5.0	–	–	–
Opening share price (1 July) ($)	1.03	1.25	0.71	1.08	0.36
Closing share price (30 June) ($)	1.06	1.04	1.25	0.78	1.07

(i) In relation to 30 June 2017, Total Dividends Per Share related to a special dividend of 5 cps on the release of Group capital restrictions that had been in place from 2010.

The Remuneration and Nomination Committee has determined appropriate remuneration structures which align remuneration of KMPs 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. Short-term incentives have been set by the Remuneration and Nomination Committee based on achievement of certain Net Revenue and Operating EBITDA targets, which align remuneration with increases in profitability.

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 as demonstrated by the implementation of the SAR which aligns remuneration with future share price performance and reward for increases in the share price.

The Remuneration and Nomination Committee has reviewed both the financial performance in the current financial year as well as the achievement of strategic activities which took place during the current financial year. The Remuneration and Nomination Committee believes the current year achievements of:

- Net Revenue, Operating EBITDA and Operating EBITDA margin increases;
- a 58% increase in EPS year on year;
- the acquisition of Orchard Marketing and subsequent co-location in Sydney and New York; and
- the improvements to the integration of the network across the Operating Brands through increased sharing of clients,

are aligned with the achievement of future shareholder wealth and therefore confirm the Executive Remuneration policy and framework.

End of Remuneration Report.

Consolidated income statement
for the year ended 30 June 2018

In thousands of AUD	Note	2018	2017
Gross revenue	3	200,039	180,666
Directly attributable costs of sales	3	(96,354)	(80,494)
Net revenue	3	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	22	627	–
Incidental acquisition costs		–	(156)
Contingent consideration fair value loss		–	(2,303)
Net finance costs	4	(585)	(149)
Profit before income tax		10,340	3,361
Income tax expense	5	(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)	16	10.1	2.2
Diluted earnings per share (AUD cents)	16	10.0	2.1

The notes on pages 36 to 70 are an integral part of these consolidated financial statements.

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/(loss)			
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)

The notes on pages 36 to 70 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
for the year ended 30 June 2018

		Attributable to owners of the Company								
In thousands of AUD	Note	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	15	2,013	–	–	(2,013)	–	–	–	–	–
Share capital reduction in accordance with section 258F of the Corporations Act 2001	15	(397,200)	397,200	–	–	–	–	–	–	–
Transfer from share-based payment reserve to accumulated losses		–	(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	15	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

The notes on pages 36 to 70 are an integral part of these consolidated financial statements.

Consolidated statement of financial position
as at 30 June 2018

In thousands of AUD	Note	2018	2017
Assets			
Cash and cash equivalents	6	34,379	32,512
Trade and other receivables	7	27,197	19,994
Other assets	8	4,173	4,251
Income tax receivable	5	–	70
Total current assets		65,749	56,827
Deferred tax assets	5	1,735	1,735
Plant and equipment	9	6,323	6,899
Other assets	8	136	156
Intangible assets	10	110,056	83,134
Total non-current assets		118,250	91,924
Total assets	2	183,999	148,751
Liabilities			
Trade and other payables	11	31,840	26,568
Contingent consideration payable	12	–	4,512
Interest-bearing loans and borrowings	17	1,423	1,352
Employee benefits	13	3,545	2,772
Income tax payable	5	1,138	512
Provisions	14	267	18
Total current liabilities		38,213	35,734
Contingent consideration payable	12	25,802	5,631
Interest-bearing loans and borrowings	17	493	1,915
Employee benefits	13	728	661
Provisions	14	3,691	1,853
Total non-current liabilities		30,714	10,060
Total liabilities	2	68,927	45,794
Net assets		115,072	102,957
Equity			
Issued capital	15	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

The notes on pages 36 to 70 are an integral part of these consolidated financial statements.

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	6	14,220	9,840
Cash flows from investing activities			
Proceeds from disposal of non-current assets		9	91
Consideration from sale of business asset	22	627	–
Acquisition of plant and equipment		(1,641)	(1,295)
Acquisition of a business, net of cash acquired	21	(4,397)	(6,328)
Contingent consideration paid	12	(4,492)	–
Net cash used in investing activities		(9,894)	(7,532)
Cash flows from financing activities			
Finance lease payments	17	(1,351)	(753)
Dividends paid to equity holders of the parent	15	(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	6	34,379	32,512

The notes on pages 36 to 70 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements
for the year ended 30 June 2018

1. Basis of preparation

In preparing these financial statements, the notes have been grouped into sections under certain key headings. Each section sets out the accounting policies applied together with any key judgements and estimates used.

(a) Reporting entity
Enero Group Limited (**the Company**) is a for-profit Company domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2018 comprise the Company and its subsidiaries (together referred to as the 'Group').

The financial statements for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of the Directors on 28 August 2018.

(b) 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**).

(c) Basis of preparation
(i) Basis of measurement
The consolidated financial statements are prepared on the historical cost basis except for the items as described in Note 1(c)(iv).

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

(ii) Going concern
The consolidated financial statements have been prepared on a going concern basis which assumes the Group 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 Group's ability to meet its future cash flow requirements using its projected cash flows from operations and existing cash reserves held as at the balance sheet date.

(iii) Use of estimates and judgements
The preparation of financial statements in conformity with AASBs requires management to make judgements, 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 judgements 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 and in any future periods if affected.

Further information about critical accounting estimates and judgements made is included in the following notes:

- 3. Revenue
- 5. Income tax expense and deferred tax
- 12. Contingent consideration payables
- 18. Financial risk management/financial instruments (Trade receivables)
- 19. Impairment of non-financial assets
- 21. Acquisition
- 29. Share-based payments

(iv) Measurement of fair values
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); and

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 is included in the following notes:

- 10. Intangible assets
- 12. Contingent consideration payables
- 29. Share-based payments

(d) Foreign currency
(i) Functional and presentation currency
The consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

1. Basis of preparation (continued)

(ii) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group at the foreign exchange rates 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 Group at the foreign exchange rate ruling at that date. Foreign exchange differences arising on retranslation are recognised in the income statement. 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.

(iii) 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, and presented in the foreign currency translation reserve (**FCTR**) in equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to the income statement 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.

(e) Goods and services tax (GST)

Revenue, expenses and assets are recognised net of the amount of GST, unless GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority, is included as a current asset or liability in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities, which are recoverable from or payable to the taxation authority, are presented as operating cash flows.

(f) Changes in accounting policies

The accounting policies provided throughout Notes 1 to 29 of this report have been applied consistently to all periods presented in the consolidated financial statements.

(g) 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.

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 is 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.

(h) The notes to the financial statements

The notes include information which is required to understand the financial statements and is material and relevant to the operations, financial position and performance of the Group. Information is considered material and relevant if, for example:

- the amount in question is significant because of its size or nature;
- it is important for understanding the results of the Group;
- it helps to explain the impact of significant changes in the Group's business – for example, acquisitions and impairment write-downs; or
- it relates to an aspect of the Group's operations that is important to its future performance.

The notes are organised into the following sections:

- Key numbers: provides a breakdown of individual line items in the financial statements that the Directors consider most relevant and summarises the accounting policies, judgements and estimates relevant to understanding these line items;
- Capital: provides information about the capital management practices of the Group and shareholder returns for the year;
- Risk: discusses the Group's exposure to various financial risks, explains how these affect the Group's financial position and performance and outlines what the Group does to manage these risks;
- Group structure: explains aspects of the Group structure and changes during the year;
- Unrecognised items: provides information about items that are not recognised in the financial statements but could potentially have a significant impact on the Group's financial position and performance; and
- Other items: provides information on items which require disclosure to comply with Australian Accounting Standards and other regulatory pronouncements, however are not considered critical in understanding the financial performance or position of the Group.

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 marketing and communication services centered on four key service pillars, including strategy, market research, advertising, digital, 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, 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	Net revenues	2018 Non-current assets	Net revenues	2017 Non-current assets
Australia	48,154	5,943	42,905	5,913
UK and 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.

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%).

Accounting policy

The Group determines and presents segments based on the information that is provided internally to the Chief Executive Officer (CEO), who is the Group's chief operating decision maker (CODM).

An operating segment is a component of the Group 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 Group's other components. All operating segments' operating results are regularly reviewed by the Group'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 comprise corporate overheads: 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.

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

3. Revenue

In thousands of AUD	2018	2017
Gross revenue from the rendering of services	200,039	180,666
Directly attributable cost of sales	(96,354)	(80,494)
Net revenue	103,685	100,172

Accounting policy

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

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.

Gross revenue represents billings to clients, inclusive of directly attributable costs of sales, relating to Group subsidiaries where a principal relationship exists between the subsidiary and its client. Where the Group 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 Group net of directly attributable cost of sales. Directly attributable cost of sales includes any project-related costs and rechargeable disbursements.

(i) Project and production fee revenue

Project and production fee revenue is recognised net of directly attributable cost of sales on a stage of completion basis.

(ii) Retainer fee revenue

Retainer fee for services rendered is 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.

Key estimates

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 judgements and assumptions of the stage of completion of the service using information of the time and costs incurred to date as a percentage of the forecasted total time and costs. Actual results may differ from estimates as at the reporting date.

4. Net finance costs

In thousands of AUD	2018	2017
Interest and finance costs	(57)	(74)
Finance lease interest	(152)	(108)
Present value interest	(628)	(226)
Interest income	252	259
Net finance costs	(585)	(149)

Foreign exchange loss of $82,000 (2017: $67,000) has been recognised in the consolidated income statement and has been included in administration expenses.

Accounting policy

(i) Interest income

Interest income is recognised as it accrues to the related financial asset using the effective interest method.

(ii) Interest and finance costs/Finance lease interest

Finance costs are recognised in the income statement using the effective interest method. They include interest on financial guarantees, amortisation of ancillary costs incurred in connection with financing arrangements and finance lease interest.

(iii) Present value interest

Present value interest is recognised in the income statement using the effective interest method and includes the effective interest cost relating to contingent consideration liabilities recognised in business combinations.

5. Income tax expense and deferred tax

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

Current taxes

The Group has a net current tax payable of $1,138,000 (2017: $442,000). The net current tax payable is comprised of current tax payables of $1,138,000 (2017: $512,000) and current tax receivables of $Nil (2017: $70,000).

Deferred taxes

Recognised deferred tax assets and liabilities are attributable to the following:

In thousands of AUD	2018	2017
Deferred tax assets		
Tax losses carried forward	3,837	3,940
Employee benefits	1,065	885
Accruals and income in advance	407	379
Lease incentive	976	357
Plant and equipment	70	126
Others	64	54
Gross deferred tax assets	6,419	5,741
Deferred tax liabilities		
Fair value gain	3,837	3,940
Identifiable intangibles	751	–
Plant and equipment	34	37
Work in progress	62	27
Lease make good asset	–	2
Gross deferred tax liabilities	4,684	4,006
Net deferred tax asset	1,735	1,735

5. Income tax expense and deferred tax (continued)

Movement in deferred tax balances

The movement in deferred tax balances during the year was all recognised in the income statement.

Deferred tax assets not recognised

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 Group can utilise the benefits:

In thousands of AUD	2018	2017
Revenue losses	22,409	33,564
Capital losses	249,434	210,927
Gross tax losses carried forward	271,843	244,491

Accounting policy

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 substantively 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 the accounting nor the 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 taxable 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.

Key assumption

The Group has recognised deferred tax assets of $3,837,000 on tax capital losses arising from disposed subsidiaries. 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 contingent consideration liabilities in the amount of $3,837,000.

6. Cash and cash equivalents

In thousands of AUD	Note	2018	2017
Cash at bank and on hand		16,660	29,060
Bank short-term deposits		17,719	3,452
Cash and cash equivalents in the statement of financial position and the statement of cash flows		34,379	32,512

For statement of cash flow presentation purposes, cash and cash equivalents include cash on hand, and short-term deposits with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. The Group has pledged short-term deposits (see Note 17 Loans and borrowings).

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 18 Financial risk management/financial instruments.

Reconciliation of cash flows from operating activities

(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 statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	2018	2017
Cash assets	34,379	32,512
(ii) Reconciliation of profit after income tax to net cash provided by operating activities		
Profit after income tax	9,087	1,930
Add/(less) non-cash items:		
Profit on sale of non-current assets	(6)	(8)
Share-based payments expense	516	371
Depreciation	2,548	3,389
Recognition of lease incentive/rent straight-line	2,108	771
Lease make good amortisation	121	459
Release of lease make good provision	(118)	(956)
Amortisation of identifiable intangibles	667	369
Gain on sale of business asset	(627)	–
Contingent consideration fair value loss	–	2,208
Contingent consideration present value interest	628	226
Increase/(decrease) in income taxes payable (net)	320	(552)
Increase in deferred tax (net)	(590)	(20)
Net cash provided by operating activities before changes in assets and liabilities	14,654	8,187
Changes in assets and liabilities adjusted for the effects of purchase and disposal of controlled entities during the financial year:		
(Increase)/decrease in trade and other receivables	(3,931)	6,786
(Increase)/decrease in work in progress	(51)	259
Decrease in prepayments	416	239
(Increase)/decrease in other assets	(3)	181
Increase/(decrease) in payables and accruals	53	(2,693)
Increase/(decrease) in unearned income	2,585	(3,598)
Increase in provisions	497	479
Net cash from operating activities	14,220	9,840

7. Trade and other receivables

In thousands of AUD	Note	2018	2017
Current			
Trade receivables		27,183	19,975
Less: provision for impairment loss	18	(100)	(135)
		27,083	19,840
Other receivables		114	154
Total trade and other receivables		27,197	19,994

No interest is charged on trade debtors. The Group's exposure to credit and currency risk and impairment losses related to trade and other receivables is disclosed in Note 18 Financial risk management/financial instruments.

8. Other assets

In thousands of AUD	2018	2017
Current		
Work in progress	1,545	1,172
Prepayments	2,613	3,029
Other current assets	15	50
	4,173	4,251
Non-current		
Deposits	136	99
Other non-current assets	–	57
	136	156

9. Plant and equipment

In thousands of AUD	Computer equipment	Office furniture and equipment	Plant and equipment	Leasehold improvements (i)	Total
2018					
Cost	5,106	2,301	393	7,726	15,526
Accumulated depreciation	(3,662)	(1,447)	(348)	(3,746)	(9,203)
Net carrying amount	1,444	854	45	3,980	6,323
Reconciliations of the carrying amounts of each class of property, plant and equipment are set out below:					
Carrying amount at the beginning of the year	1,219	821	56	4,803	6,899
Additions	934	245	–	462	1,641
Acquired through business combination	74	40	19	108	241
Depreciation	(820)	(269)	(30)	(1,429)	(2,548)
Effect of movements in exchange rates	42	17	–	36	95
Disposals	(5)	–	–	–	(5)
Carrying amount at the end of the year	1,444	854	45	3,980	6,323
2017					
Cost	4,252	1,800	391	8,037	14,480
Accumulated depreciation	(3,033)	(979)	(335)	(3,234)	(7,581)
Net carrying amount	1,219	821	56	4,803	6,899
Reconciliations of the carrying amounts of each class of property, plant and equipment are set out below:					
Carrying amount at the beginning of the year	1,308	709	195	2,730	4,942
Additions	773	588	12	3,922	5,295
Acquired through business combination	113	102	–	59	274
Depreciation	(944)	(487)	(144)	(1,814)	(3,389)
Effect of movements in exchange rates	(28)	(25)	(7)	(80)	(140)
Disposals	(3)	(66)	–	(14)	(83)
Carrying amount at the end of the year	1,219	821	56	4,803	6,899

(i) The Group has pledged Leasehold improvements (see Note 17 Loans and borrowings).

Accounting policy

(i) Recognition and measurement

Plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see Note 19 Impairment of non-financial assets). The cost of the asset also includes the cost of replacing parts on an item of plant and equipment when it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are charged to the income statement as incurred.

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.

(ii) Derecognition

An item of property, plant and equipment is derecognised when it is sold or otherwise disposed of, or when its use is expected to bring no future economic benefits.

Gains and losses on derecognition are determined by comparing the proceeds with the carrying amount and recognised within 'Administration expenses' in the income statement.

(iii) Leased assets

Leases in terms of which the Group 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 Group's statement of financial position.

9. Plant and equipment (continued)

(iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the assets' estimated useful lives. Leased assets are depreciated over the shorter of the lease term and their useful lives, unless it is reasonably certain that the Group will obtain ownership of the asset by the end of the lease term. The major categories of plant and equipment were depreciated in the current and, where applicable, comparative period as follows:

Computer equipment	25% to 40%
Office furniture and equipment	5% to 25%
Plant and equipment	10% to 25%
Leasehold improvements	Life of lease

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

10. 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
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

Amortisation charge

The amortisation charge of $667,000 (2017: $369,000) is recognised in the depreciation and amortisation expense in the income statement.

Goodwill CGU group allocation

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

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 to Note 21 Acquisition for details.

Accounting policy
(i) Goodwill
Goodwill acquired in a business combination is initially measured at cost. Cost is measured as the cost of the business combination minus the net fair value of the acquired and identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is allocated to cash generating units expected to benefit from synergies created by the business combination.

Goodwill is not amortised, but instead is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

(ii) Research and development
Expenditure on research activities is charged to the income statement as incurred.

Expenditure on development activities (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 Group intends to, and has sufficient resources to, complete development and to use or sell the asset.

The capitalised development expenditure 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. Capitalised development expenditure is measured at cost, less accumulated amortisation and impairment losses.

(iii) Other intangible assets
Other intangible assets acquired separately are measured on initial recognition at cost. The other intangible assets acquired in business combinations are mainly customer relationships and customer contracts. The cost of these assets is their fair value at date of acquisition based on valuation techniques generally using the excess earnings method. Following initial recognition, intangible assets are carried at cost less amortisation and any impairment losses.

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.

(iv) Amortisation
Intangible assets other than goodwill are amortised on a straight-line basis over their estimated useful lives from the date they are available for use.

A summary of the useful lives of intangible assets for the current and, where applicable, comparative period is as follows:

Intangible asset	Useful life
IT related intellectual property	2 to 8 years
Customer contracts and relationships	4 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.

(v) Impairment
Refer to Note 19 Impairment of non-financial assets for further details on impairment.

11. Trade and other payables

In thousands of AUD	2018	2017
Current liabilities		
Trade payables	10,931	11,451
Other payables and accrued expenses	8,463	7,019
Unearned income	12,446	8,098
	31,840	26,568

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 18 Financial risk management/financial instruments.

12. 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.

Accounting policy

Contingent consideration payable is initially recognised at fair value in connection with a business combination. The liability is discounted using a market interest rate for the liability and a present value interest charge is recognised in the income statement as the discount unwinds. Any change in estimate of contingent consideration payable is recognised in the income statement as a fair value gain or loss during the period when the estimate is revised. Refer to Note 21 Acquisition for further details of acquisitions in the current and prior financial year.

13. Employee benefits

In thousands of AUD	2018	2017
Aggregate liability for employee benefits, including on-costs		
Current		
Employee benefits provision	3,545	2,772
Non-current		
Employee benefits provision	728	661

The Group has recognised $2,476,000 (2017: $2,188,000) as an expense in the income statement for defined contribution plans during the reporting period.

Accounting policy

Provision is made for employee benefits including annual leave and long service leave for employees.

(i) Long-term employee benefits

The Group's net obligation in respect of long-term service benefits, other than superannuation and pension plans, is the amount of future benefit that employees have earned in return for their service provided up to the reporting date. 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 Corporate bonds which have maturity dates approximating to the terms of the Group'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 Group expects to pay as at reporting date, including related on-costs.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group 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 charged to the income statement when the Group 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 charged to the income statement if the Group 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.

14. Provisions

In thousands of AUD	Lease make good	Lease incentive	Rent straight-line	Total
2018				
Current	238	19	10	267
Non-current	200	3,231	260	3,691
Total provisions current and non-current	438	3,250	270	3,958
Reconciliations of the carrying amounts of each class of provision, except for employee benefits, are set out below:				
Carrying amount at the beginning of the year	459	1,273	139	1,871
Acquired through business combination	63	–	–	63
Increase due to new provision	13	2,034	127	2,174
Effect of movement in exchange rates	21	11	11	43
Released/used during the year	(118)	(68)	(7)	(193)
Carrying amount at the end of the year	438	3,250	270	3,958

2017				
Current	–	18	–	18
Non-current	459	1,255	139	1,853
Total provisions current and non-current	459	1,273	139	1,871
Reconciliations of the carrying amounts of each class of provision, except for employee benefits, are set out below:				
Carrying amount at the beginning of the year	1,136	228	413	1,777
Acquired through business combination	3	–	–	3
Increase due to new provision	309	1,217	144	1,670
Effect of movement in exchange rates	(33)	(6)	(6)	(45)
Released/used during the year	(956)	(166)	(412)	(1,534)
Carrying amount at the end of the year	459	1,273	139	1,871

Accounting policy

A provision is recognised in the statement of financial position when the Group 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.

(i) Make good provision
The Group recognises provision for make good on all operating leases for premises which require make good expenditure at completion of the lease. 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 Group 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) Rent
The Group has made provision for increase in rent for operating leases for premises. Rent is recognised in the income statement on a straight-line basis over the lease term.

15. Capital and reserves

In thousands of AUD	2018	2017
Share capital		
Ordinary shares, fully paid	96,656	96,389

The Company does not have authorised capital or par value in respect of its shares.

Movement in ordinary shares

	2018 Shares	2018 In thousands of AUD	2017 Shares	2017 In thousands of AUD
Balance at beginning of year	85,604,954	96,389	85,604,954	491,576
297,184 shares (2017: 1,636,718 shares) transferred from a trust account held by the Company to the employees of the Group on exercise of Share Appreciation Rights(i)	–	267	–	2,013
Share capital reduction in accordance with section 258F of the Corporations Act 2001(ii)	–	–	–	(397,200)
Balance at end of year	85,604,954	96,656	85,604,954	96,389

(i) As at 30 June 2018, a total of 1,294,301 shares (30 June 2017: 1,591,485 shares) were held in trust by the Company. Share capital recognised during the year on the exercise of Share Appreciation Rights is based on the VWAP of the Company's shares for the 20 business days prior to the vesting date of the rights ($0.90).

(ii) On 17 May 2017, a resolution was passed by the Directors approving a share capital reduction of $397,200,000 in accordance with section 258F of the *Corporations Act 2001* (Cth), reducing share capital that is lost or not represented by available assets. There was no change in the number of shares on issue.

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.

Profit appropriation reserve
The profit appropriation reserve comprises profits appropriated by the parent entity.

Translation reserve
The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Share-based payment reserve
The share-based payment reserve comprises the cumulative expense relating to the fair value of options, rights and equity plans on issue to Key Management Personnel, senior Executives and employees of the Group less amounts transferred to other reserves or to share capital on exercise of options, rights and equity plans.

Reserve change in ownership interest in subsidiary
The reserve change in ownership interest in subsidiary relates to a subsidiary equity plan.

Dividends
Dividend declared and/(or) paid by the Company to its members:

	Cents per share	Total amount In thousands of AUD	Date of payment
During the year ended 30 June 2018			
Fully franked interim dividend	1.5	1,284	15 March 2018
Subsequent to the balance sheet date, at the date of this report			
Fully franked final dividend	2.5	2,140	8 October 2018
During the year ended 30 June 2017			
Fully franked special dividend	5.0	4,280	26 June 2017

Dividend franking account

In thousands of AUD	2018	2017
Franking credits available for future years at 30% to shareholders of Enero Group Limited	20,129	20,041

The above amounts represent the balance of the franking account at end of the financial year 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.

Accounting policy

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares 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.

16. Earnings per share

Profit attributable to equity holders of the parent

In thousands of AUD	2018	2017
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

Weighted average number of ordinary shares

In thousands of shares	2018	2017
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

Earnings per share

In AUD cents	2018	2017
Basic	10.1	2.2
Diluted	10.0	2.1

Accounting policy

The Group 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 share rights granted to employees.

17. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate risk, liquidity risk and foreign currency risk, see Note 18 Financial risk management/financial instruments.

In thousands of AUD	2018	2017
Current liabilities		
Hire purchase lease liabilities	1,423	1,352
Non-current liabilities		
Hire purchase lease liabilities	493	1,915

Reconciliations of the carrying amounts of hire purchase liabilities are set out below:		
Carrying amount at the beginning of the year	3,267	20
New hire purchase	–	4,000
Repayments	(1,351)	(753)
Carrying amount at the end of the year	1,916	3,267

17. Loans and borrowings (continued)

Financing facilities

The Group has access to the following lines of credit:

In thousands of AUD	Lease finance facility	Indemnity guarantee facility	Credit card facility	Total
2018				
Total facilities available	1,916	3,463	1,951	7,330
Facilities utilised at reporting date	1,916	1,569	391	3,876
Facilities not utilised at reporting date	–	1,894	1,560	3,454
2017				
Total facilities available	3,267	3,700	1,918	8,885
Facilities utilised at reporting date	3,267	2,263	285	5,815
Facilities not utilised at reporting date	–	1,437	1,633	3,070

Financing arrangements

All finance facilities are negotiated by the Company on behalf of the Group. The carrying amount of amounts drawn down on facilities as at the reporting date equates to face value. The indemnity guarantee facility is secured by cash deposits held with the bank.

Lease finance facility

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

In thousands of AUD	2018	2017
Finance lease and hire purchase payable commitments		
Finance lease commitments are payable:		
Within one year	1,494	1,504
One year or later and no later than five years	498	1,992
	1,992	3,496
Less: Future lease finance charges	(76)	(229)
	1,916	3,267
Finance lease and hire purchase liabilities provided for in the financial statements		
Current	1,423	1,352
Non-current	493	1,915
	1,916	3,267

The Group leases plant and equipment and leasehold improvements under finance leases expiring from one to five years (2017: one to five years). At the end of the lease term, the Group 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.

Indemnity guarantee facility

The indemnity guarantee facility is in place to support financial guarantees outstanding at any one time. Specific guarantee amounts are $1,569,000 (2017: $2,263,000) supporting property rental and other obligations.

Credit card facility

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

Accounting policy

Finance lease

Leases where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in loans and borrowings.

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

18. Financial risk management/financial instruments

The Group's exposure to financial risks, objectives, policies and processes for managing the risks including methods used to measure the risks, and the management of capital, are presented below.

The Group's activities expose it to the following financial risks:

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

The Group's principal financial instruments comprise cash, receivables, payables, interest-bearing liabilities, contingent consideration payable and other financial liabilities.

The Board has overall responsibility for the oversight of the risk management framework. Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly and modified as appropriate to reflect changes in market conditions and the Group's activities.

The Group considers that there are no changes to the objectives, policies and processes 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 Group if a customer or counterparty to a financial instrument fails to meet its contractual obligation, and arises principally from the Group's receivables from customers.

Each subsidiary performs credit analysis of a new customer and standard payment terms are offered only to creditworthy customers.

During the year ended 30 June 2018, the Group entered into transactions with more than 700 unique customers. The 10 largest customers accounted for 24% of net revenue for the year ended 30 June 2018, with no one customer accounting for more than 13% of net revenue. There are no material credit exposures relating to a single receivable or groups of receivables.

The maximum exposure to credit risk is net of any provisions for impairment of those assets, as disclosed in the statement of financial position.

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

		Carrying amount	
In thousands of AUD	**Note**	**2018**	**2017**
Cash and cash equivalents	6	34,379	32,512
Trade and other receivables	7	27,197	19,994
Deposits	8	136	99
		61,712	52,605

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

		Carrying amount	
In thousands of AUD	**Note**	**2018**	**2017**
Trade receivables	7	27,083	19,840

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

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

In thousands of AUD	**2018**	**2017**
Balance at 1 July	135	173
Impairment loss recognised in income statement	52	175
Provision used during year	(87)	(213)
Balance at 30 June	100	135

Based on the credit history, the Group 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 98.5% (2017: 99.0%) of the trade receivables balance. For trade receivables which are past due and over 90 days, the Group individually assesses each trade receivable and if a trade receivable is assessed as non-recoverable, an impairment allowance is made, which represents 0.4% (2017: 0.7%) of the total trade receivables balance.

Impairment losses

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

In thousands of AUD	**2018**	**2017**
Not past due	23,347	16,504
Past due and less than 90 days	3,424	3,265
Past due and more than 90 days	312	71
Past due, more than 90 days and impaired	100	135
Gross trade receivables	27,183	19,975
Less: Impairment	(100)	(135)
Net trade receivables	27,083	19,840

Market risk

Market risk is the risk relating to changes in market prices, such as foreign exchange rates, interest rates and equity prices, which will affect the Group'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.

18. Financial risk management/financial instruments (continued)

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 arises from operations and translation risks.

The Operating Brands segment generated approximately 54% of both its net revenue and Operating EBITDA during the year ended 30 June 2018 from outside Australia. The Group'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 Great British pound (GBP) and US dollar (USD).

The Group has minimal exposure to profit and loss translation risk as the majority of transactions denominated in foreign currencies 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 Group will not be able to meet its financial obligations as they become due. The Group'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 Group manages liquidity risk by monitoring forecast operating cash flows, and committed unutilised facilities; and re-estimating the value of contingent consideration liabilities semi-annually.

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

2018 **In thousands of AUD**	**Carrying amount**	**Contractual cash flows**	**Less than 1 year**	**1 to 5 years**	**Over 5 years**
Non-derivative financial liabilities					
Hire purchase liabilities	1,916	1,992	1,494	498	–
Trade and other payables (excluding unearned revenue)	19,394	19,394	19,394	–	–
Contingent consideration payable	25,802	28,449	–	28,449	–
	47,112	49,835	20,888	28,947	–

2017 **In thousands of AUD**	**Carrying amount**	**Contractual cash flows**	**Less than 1 year**	**1 to 5 years**	**Over 5 years**
Non-derivative financial liabilities					
Hire purchase liabilities	3,267	3,496	1,504	1,992	–
Trade and other payables (excluding unearned revenue)	18,470	18,470	18,470	–	–
Contingent consideration payable	10,143	10,769	4,554	6,215	–
	31,880	32,735	24,528	8,207	–

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 contingent consideration liabilities
There are critical accounting estimates and judgements in relation to contingent consideration liabilities. Refer to Note 12 Contingent consideration payables for further details.

There are no other significant uncertainties in the timing or amounts 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 Group has no significant variable interest-bearing assets or liabilities at 30 June 2018.

Capital management

The Group's key sources of capital are available committed facilities 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. The Group's only bank debt is in relation to a hire purchase facility for the fit-out of 100 Harris Street, Pyrmont. The Group also has contingent consideration payables as described in Note 12 Contingent consideration payables.

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	2018 Carrying amount	2018 Fair value	2017 Carrying amount	2017 Fair value
Cash at bank and on hand	16,660	16,660	29,060	29,060
Bank short-term deposits	17,719	17,719	3,452	3,452
Trade receivables	27,083	27,083	19,840	19,840
Trade and other payables	(19,394)	(19,394)	(18,470)	(18,470)
Contingent consideration payable	(25,802)	(25,802)	(10,143)	(10,143)
Hire purchase lease liabilities	(1,916)	(1,916)	(3,267)	(3,267)
	14,350	14,350	20,472	20,472

Fair value measurement:

Level 3 fair values

The following tables show the valuation techniques used in measuring Level 3 fair values for financial instruments 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).

Reconciliation of Level 3 fair values

In thousands of AUD	2018	2017
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

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.

18. Financial risk management/financial instruments (continued)

Other items

The carrying amount of cash and cash equivalents, trade and other receivables, trade and other payables and lease liabilities approximates their fair value. The fair value which is determined for disclosure purposes only is calculated as:

- Trade receivables: is the present value of future cash flows, discounted at the market rate of interest at the reporting date.
- Trade and other payables and hire purchase lease liabilities: is 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.

Accounting policy

Non-derivative financial assets

Non-derivative financial assets are recognised 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 Group becomes a party to the contractual provisions of the instrument.

Non-derivative financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

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 Group has the following non-derivative financial assets:

(i) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money or services directly to a debtor with no intention of selling the receivable. Loans and receivables comprise trade and other receivables.

Loans and receivables 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.

(ii) Work in progress

Work in progress represents accrued revenue recognised on a percentage of completion basis and rechargeable disbursements at the period end, and is stated at the lower of cost and net realisable value.

(iii) Cash and cash equivalents

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 Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Non-derivative financial liabilities

Non-derivative financial liabilities are recognised 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 Group becomes a party to the contractual provisions of the instrument.

Non-derivative financial liabilities are derecognised when the Group's contractual obligations are discharged or cancelled, or expire.

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts and trade, other payables and contingent consideration payable.

Non-derivative financial liabilities, other than contingent consideration payable, 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.

Contingent consideration payable is classified as a financial liability and is measured at fair value through profit or loss. Contingent consideration relating to acquisition of subsidiaries is recognised 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 recognised in the income statement as the discount unwinds. Any change in estimate of contingent consideration payable is recognised in the income statement as a fair value gain or loss during the period when the estimate is revised.

Derivative financial instruments including hedging accounting

The Group may use derivative financial instruments to hedge its exposure to interest rate risks and foreign currency risks.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges), or hedges of probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions have been and will continue to be effective in offsetting changes in fair values or cash flows of hedged items.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement.

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. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Impairment of 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 Group on terms that the Group would not consider otherwise, and/or indications that a debtor or issuer will enter bankruptcy.

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 the income statement 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 the income statement.

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

Key estimates

Trade receivables are carried 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.

19. Impairment of non-financial assets

The process of impairment testing is to estimate the recoverable amount of the assets concerned, and recognise an impairment loss in the Income Statement whenever the carrying amount of those assets exceeds the recoverable amount.

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 group as they do not obtain synergies with the businesses in that CGU group, however they are included in the Operating Brands segment. They have no carrying value.

The recoverable amount of the CGU group 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 years.

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 is 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 rate
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 rate
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 rate of 2.5% (30 June 2017: 2.5%) is used into perpetuity, based on the expected long-range growth rate 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 range 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.

Accounting policy

The carrying amounts of the Group'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. Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's value in use and 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 purpose of assessing impairment, assets 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').

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.

Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of goodwill and then to reduce the carrying amount of the other assets on a pro-rata basis.

At each reporting date, the Group reviews non-financial assets other than goodwill that have been previously impaired for indications that the conditions that resulted in the impairment have reversed.

20. Controlled entities

Particulars in relation to controlled entities:

Name	Group interest 2018 %	Group interest 2017 %	Country of incorporation
Parent entity			
Enero Group Limited			
Controlled entities			
Enero Group UK Holdings Pty Limited	100	100	Australia
Enero Group UK Limited	100	100	UK
Enero Group (US) Pty Limited	100	100	Australia
Enero Group (US) Inc.	100	100	USA
BMF Holdco Pty Limited	100	100	Australia
BMF Advertising Pty Limited	100	100	Australia
The Precinct Group Pty Limited	100	100	Australia
Naked Communications Australia Pty Limited	100	100	Australia
Hotwire Australia Pty Limited	100	100	Australia
Orchard Marketing Pty Ltd	100	–	Australia
The Leading Edge Market Research Consultants Pty Limited	100	100	Australia
— The Leading Edge Market Research Consultants Limited	100	100	UK
— Enero Group Singapore Pte Limited	100	100	Singapore
The Digital Edge Online Consultants Pty Limited	100	100	Australia
Brigade Pty Limited	100	100	Australia
The Hotwire Public Relations Group Limited	100	100	UK
— Hotwire Public Relations GMBH	100	100	Germany
— Hotwire Public Relations SARL	100	100	France
— Hotwire Public Relations SL	100	100	Spain
— Hotwire Public Relations SRL	100	100	Italy
— Hotwire Public Relations Limited	100	100	UK
— Skywrite Communications Limited	100	100	UK
— 33 Digital Limited	100	100	UK
CPR Communications and Public Relations Pty Limited	100	100	Australia
Naked Communications Limited	100	100	UK
— Naked Numbers Limited	100	100	UK
— Naked Communications Holdings Inc.	100	100	USA
— Naked New York LLC	100	100	USA
Lorica Group Limited	100	100	UK
— Corporate Edge Group Limited	100	100	UK
Frank Public Relations Limited	75	75	UK
— Frank Public Relations Pty Limited	75	75	Australia
— Frank Public Reactions Inc.	75	75	USA
OB Media LLC	51	51	USA
— Bluestarads.com LLC	51	51	USA
SiteMath LLC	51	51	USA
— Clicksciences.com LLC	51	51	USA
The Leading Edge Research & Strategy Consultants LLC	100	100	USA
Orchard Creative Technology Inc.	100	–	USA
Hotwire Public Relations Group LLC	100	100	USA
Hotwire New Zealand Limited	100	100	New Zealand
Love Pty Limited	100	100	Australia
Domain Active Holdco Pty Limited	100	100	Australia
— Domain Active Pty Limited	100	100	Australia
Enero Group NZ Ltd	100	100	New Zealand
Dark Blue Sea Pty Limited(i)	–	100	Australia
— Dark Blue Sea Enterprises Pty Limited(i)	–	100	Australia
– Fabulous Parking Pty Limited(i)	–	100	Australia
– DarkBlue.com Pty Limited(i)	–	100	Australia
– DBS Administration Pty Limited(i)	–	100	Australia
– Fabulous.com Pty Limited(i)	–	100	Australia
– Pageseeker.com Pty Limited(i)	–	100	Australia

20. Controlled entities (continued)

Name	Group interest 2018 %	2017 %	Country of incorporation
– Protopixel Pty Limited(i)	–	100	Australia
– Roar.com Pty Limited(i)	–	100	Australia
– Whois Privacy Services Pty Limited(i)	–	100	Australia
Australian Business Theatre Pty Limited(i)	–	100	Australia
Jigsaw Strategic Research Pty Limited(i)	–	100	Australia

(i) Entities deregistered during the year.

Accounting policy

Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method. For every business combination, the Group identifies the acquirer, which is the combining entity that obtains control of other combining entities or businesses. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

Goodwill arising from the business combination is measured at fair value of the consideration transferred including the recognised amount of any non-controlling interests 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. Non-controlling interest is measured at its proportionate interest in the identifiable net assets of the acquiree.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. 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.

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.

Transaction costs incurred in connection with a business combination are expensed as incurred.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

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 statement.

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21. 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, 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 values 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

21. Acquisition (continued)

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 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 the 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 have 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 values 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

22. Disposal

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 the asset was previously impaired, a gain on sale was recognised in the income statement in the current reporting period.

23. Parent entity disclosures

As at, and throughout, the financial year ended 30 June 2018, the parent Company of the Group was Enero Group Limited.

		The Company
In thousands of AUD	2018	2017
Result of the parent entity		
Profit for the year	14,076	16,723
Other comprehensive income	–	–
Total comprehensive income for the year	14,076	16,723
Financial position of the parent entity at year end		
Current assets	23,981	11,997
Total assets	149,913	112,229
Current liabilities	10,867	6,806
Total liabilities	37,858	13,482
Net assets	112,055	98,747
Total equity of the parent entity comprising:		
Share capital	96,656	96,389
Share-based payment reserve	12,106	11,857
Profit appropriation reserve	25,235	12,443
Accumulated losses	(21,942)	(21,942)
Total equity	112,055	98,747

(i) For dividends declared and paid by the Company to members since the end of the previous financial year, refer to Note 15 Capital and reserves.

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 24 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 2018.

24. 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 subsidiaries subject to the Deed are:

- The Leading Edge Market Research Consultants Pty Limited; and
- BMF Holdco Pty Limited.

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 2018, is set out as follows:

Summarised income statement and retained profits

In thousands of AUD	2018	2017
Net revenue	26,435	27,172
Dividends received from subsidiaries	13,071	10,362
Employee expenses	(22,885)	(22,552)
Operating and other expenses	(4,176)	(3,248)
Profit before tax	12,445	11,734
Income tax benefit	1,622	752
Profit after tax	14,067	12,486
Attributable to:		
Equity holders of the Company	14,067	12,486
Accumulated losses		
Accumulated losses at beginning of year	(32,044)	(425,007)
Profit for the year	14,067	12,486
Share capital reduction in accordance with s258F of the Corporations Act 2001	–	397,200
Dividend paid to equity holders	–	(4,280)
Transfer to profit appropriation reserve	(14,076)	(12,443)
Accumulated losses at end of year	(32,053)	(32,044)
Profit appropriation reserve		
Profit appropriation reserve at beginning of year	12,443	–
Dividend paid during the year	(1,284)	–
Profit for the year	14,076	12,443
Profit appropriation reserve at end of year	25,235	12,443

Statement of financial position

In thousands of AUD	2018	2017
Assets		
Cash and cash equivalents	22,526	11,905
Trade and other receivables	6,624	6,649
Other assets	960	1,184
Total current assets	30,110	19,738
Receivables	56,048	58,431
Other financial assets	30,557	5,162
Deferred tax assets	1,865	1,103
Plant and equipment	3,887	4,186
Intangible assets	16,387	16,387
Total non-current assets	108,744	85,269
Total assets	138,854	105,007
Liabilities		
Trade and other payables	10,008	10,214
Interest-bearing loans and borrowings	1,422	1,342
Employee benefits	1,793	1,475
Total current liabilities	13,223	13,031
Contingent consideration payable	19,735	–
Interest-bearing loans and borrowings	493	1,914
Employee benefits	415	394
Provisions	3,044	1,023
Total non-current liabilities	23,687	3,331
Total liabilities	36,910	16,362
Net assets	101,944	88,645
Equity		
Issued capital	96,656	96,389
Share-based payment reserve	12,106	11,857
Profit appropriation reserve	25,235	12,443
Accumulated losses	(32,053)	(32,044)
Total equity	101,944	88,645

25. Commitments

Operating leases

Leases as lessee

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

In thousands of AUD	2018	2017
Less than one year	5,353	3,631
Between one and five years	21,244	17,671
Over five years	1,586	5,121
	28,183	26,423

The Group leases property under non-cancellable operating leases generally expiring in two to 10 years. 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 2018, $5,514,000 (2017: $6,170,000) was recognised as an expense in the income statement in respect of operating leases.

Accounting policy

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

26. 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 2018.

27. Subsequent events

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. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2018 but will be recognised in subsequent financial period.

Except for the events listed 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 Group, the results of those operations, or the state of affairs of the Group in future financial years.

28. Key Management Personnel and other related party disclosures

In addition to Executive and Non-Executive Directors, the following were Key Management Personnel of the Group at any time during the reporting period.

Name	Position
Brendan York	Group Finance Director
Fiona Chilcott(i)	Group Director People and Culture
Stephen Watson	Group Strategy and Operations Director

(i) Appointed on 23 August 2017 and became KMP at that date.

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

There were no transactions with the Director related party during the current or prior reporting period.

The Key Management Personnel compensation (including all Directors) is as follows:

In AUD	2018	2017
Short-term employee benefits	2,552,846	2,427,165
Other long-term benefits	27,069	(19,041)
Post-employment benefits	100,106	100,799
Share-based payments – Share Appreciation Rights	279,992	206,272
Total share-based payments	279,992	206,272
Total Key Management Personnel compensation	2,960,013	2,715,195

29. Share-based payments

Equity-based plans

Long-term incentives (**LTI**) were provided as equity-based incentives in the Company under the Share Appreciation Rights plan (**SAR**) in prior financial years which remain outstanding at 30 June 2018.

Share Appreciation Rights (SARs)

The Share Appreciation Rights Plan is designed to incentivise the Company's Senior Executives and other senior management of the Group.

The fair value of the SARs is measured using the Monte Carlo simulation model. Measurement inputs include share price on measurement date, exercise price of the instruments, expected volatility (based on weighted average historical volatility), weighted average expected life of the instruments (based on historical experience and general rights 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 Plan, and it may grant rights accordingly. Enero'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 E = (A – B) / A, where:

– E is the share right entitlement;
– 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.

If A – B is less than or equal to zero, the share right will not vest and will immediately lapse on the applicable vesting date.

One share right shall never convert into more than one share in the capital of the Company. Rights expire at 15 business days after the relevant vesting date or the termination of the individual's employment. The Board may exercise discretion on early vesting of rights in the event of a change of control of the Group. Refer to the table below for a summary of SARs on issue.

Summary of Share Appreciation Rights on issue:

Issue Date	16 June 2015 (i)	20 October 2015	19 October 2017
SARs issued	1,000,000	4,700,000	5,000,000
Participants	CEO	Senior Executives	CEO and Senior Executives
VWAP for the 20 business days prior to the grant (B)	70 cents	70 cents	$1.04
Vesting dates: 20 business days after the release of the Group financial report for the year ended:			
Tranche 1	30 June 2016 – 1/3rd	30 June 2016 – 1/3rd	30 June 2018 – 1/3rd
Tranche 2	30 June 2017 – 1/3rd	30 June 2017 – 1/3rd	30 June 2019 – 1/3rd
Tranche 3	30 June 2018 – 1/3rd	30 June 2018 – 1/3rd	30 June 2020 – 1/3rd
Expiry	30 September 2018	30 September 2018	30 September 2020
Outstanding SARs as at 30 June 2018	333,334	1,066,664	5,000,000

(i) Grant is in relation to SARs provided to the CEO which were issued on 16 June 2015 and subsequently approved by the shareholders on 20 October 2015. The VWAP is for the 20 business days prior to the shareholder approval.

Share Appreciation Rights (SARs)

Summary of rights over unissued ordinary shares

Grant date	Expiry date	VWAP (for the 20 business days prior to the grant)	Weighted average exercise price	Number of Rights outstanding at beginning of year	Rights granted during year	Rights exercised during year	Rights expired during year	Rights forfeited during year	Number of Rights at year end Outstanding	Vested	Proceeds received	Date issued	Number of shares issued	Expected life (years)
2018														
16 June 2015	30 Sep 2018	$0.70	–	666,667	–	333,333	–	–	333,334	–	–	–	74,074	1.3–3.3
20 Oct 2015	30 Sep 2018	$0.70	–	2,133,332	–	1,066,668	–	–	1,066,664	–	–	–	223,110	0.9–2.9
19 Oct 2017	30 Sep 2020	$1.04	–	–	5,000,000	–	–	–	5,000,000	–	–	–	–	0.9–2.9
				2,799,999	5,000,000	1,400,001	–	–	6,399,998	–	–		297,184	

Grant date	Expiry date	VWAP (for the 20 business days prior to the grant)	Weighted average exercise price	Number of Rights outstanding at beginning of year	Rights granted during year	Rights exercised during year	Rights expired during year	Rights forfeited during year	Number of Rights at year end Outstanding	Vested	Proceeds received	Date issued	Number of shares issued	Expected life (years)
2017														
15 Oct 2013	30 Sep 2016	$0.71	–	2,183,315	–	2,070,818	–	112,497	–	–	–	–	875,472	0.9–2.9
16 June 2015	30 Sep 2018	$0.70	–	1,000,000	–	333,333	–	–	666,667	–	–	–	143,631	1.3–3.3
20 Oct 2015	30 Sep 2018	$0.70	–	4,700,000	–	1,433,335	–	1,133,333	2,133,332	–	–	–	617,615	0.9–2.9
				7,883,315	–	3,837,486	–	1,245,830	2,799,999	–	–		1,636,718	

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

	VWAP (for the 20 business days prior to the grant) 2018 $	Weighted average exercise price 2018	Number of options/rights 2018	VWAP (for the 20 business days prior to the grant) 2017 $	Weighted average exercise price 2017	Number of options/rights 2017
Outstanding at 1 July	0.70	–	2,799,999	0.70	–	7,883,315
Forfeited during the period	–	–	–	0.70	–	(1,245,830)
Expired during the period	–	–	–	–	–	–
Exercised during the period	0.70	–	(1,400,001)	0.71	–	(3,837,486)
Granted during the period	1.04	–	5,000,000	–	–	–
Outstanding at 30 June	0.97	–	6,399,998	0.70	–	2,799,999
Exercisable at 30 June	–	–	–	–	–	–

The options outstanding at 30 June 2018 have a VWAP (for the 20 business days prior to the grant) range of $0.70 to $1.04 (30 June 2017: $0.70) and a weighted average contractual life of 1.03 years (30 June 2017: 0.75 years).

The fair value of services received in return for SARs granted is based on the fair value of SARs, measured using the Monte Carlo simulation model.

The total net expenses recognised by the Group for the year ended 30 June 2018 for share-based payment transactions were $516,000 (2017: $371,000).

The VWAP for the 20 business days prior the date of exercise of SARs was $0.90.

29. Share-based payments (continued)

Inputs for measurement of grant date fair value

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

Grant date	Expiry date	Value per SAR $	VWAP (for the 20 business days prior to the grant) $	Price of shares on grant date $	Expected volatility %	Risk-free interest rate %	Dividend yield %	Expected life (years)
16 June 2015(i)	30 Sept 2018	0.17 – 0.28	0.70	0.75	50	1.75–1.81	0.0	1.3 -3.3
20 Oct 2015(ii)	30 Sept 2018	0.17 – 0.28	0.70	0.75	50	1.75–1.81	0.0	0.9–2.9
19 Oct 2017(iii)	30 Sept 2020	0.12 – 0.23	1.04	0.98	40	1.78–2.08	0.0	0.9–2.9

(i) Grant is in relation to SARs provided to the CEO which were issued on 16 June 2015 and subsequently approved by the shareholders on 20 October 2015. The last expiry date of the rights is 20 business days after the release of the Group's financial report for the year ended 30 June 2018, which is estimated to be around 30 September 2018.

(ii) Grant is in relation to SARs provided to senior employees of the Group which were issued on 20 October 2015. The last expiry date of the rights is 20 business days after the release of the Group's financial report for the year ended 30 June 2018, which is estimated to be around 30 September 2018.

(iii) Grant is in relation to SARs provided to senior employees of the Group which were issued on 19 October 2017. The last expiry date of the rights is 20 business days after the release of the Group's financial report for the year ended 30 June 2020, which is estimated to be around 30 September 2020.

Accounting policy

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.

Fair value measurement and key estimates

The grant date fair value of employee share rights is measured using the Monte Carlo simulation model. This value 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 Company share price on the grant date, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information) of the Company's share price, the risk-free interest rate, the dividend yield, the expected life of the share rights, the probability of occurrence of certain events and the exercise price. Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value. 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.

30. Auditor's remuneration

In AUD	2018	2017
Audit services – auditors of the Company		
KPMG Australia	304,000	292,000
Overseas KPMG firm	132,000	136,000
	436,000	428,000
Other services – auditors of the Company		
Taxation compliance services:		
KPMG Australia	8,000	–
Overseas KPMG firm	181,000	186,000
	189,000	186,000

Directors' Declaration

1. In the opinion of the Directors of Enero Group Limited (**the Company**):
   (a) the consolidated financial statements and notes, set out on pages 31 to 70 and the Remuneration Report in the Directors' Report, set out on pages 18 to 30 are 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 2018 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 24 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 2018 pursuant to section 295A of the Corporations Act 2001.
4. The Directors draw attention to Note 1(b) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Dated at Sydney this 28th day of August 2018.

Signed in accordance with a resolution of the Directors:

John Porter

Chairman

Independent Auditor's Report

To the shareholders of Enero Group Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Enero Group Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2018
- Consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The ***Key Audit Matters*** we identified are:

- Recognition of revenue;
- Recoverable amount of goodwill and intangible assets; and
- Acquisition accounting

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue Recognition

Refer to Note 3 Revenue (Gross revenue $200.0 million)

The key audit matter	How the matter was addressed in our audit
The recognition of revenue is considered to be a key audit matter due to: • The significance of revenue to the financial statements; • The Group enters into a large volume of revenue transactions with a large number of customers which drives greater audit effort; and • For certain contracts, revenue recognition applies stage of completion estimations, with reference to the relative value of services completed, in comparison to the total expected contracted value of the service. Forward looking assumptions incorporated into these estimations inherently reflect a higher degree of uncertainty which adds to the audit complexity. Manual processes for stage of completion revenue recognition increase the risk of error, leading to additional audit effort.	Our procedures included: • We analysed the year on year monthly revenue trends across the different business units to understand and identify the higher risk areas for testing, given the large quantity of contracts entered into. • We selected a sample of the Group's contracts, including the largest contracts. For the sample selected we; - Assessed the revenue recognition against contract terms, the Group's accounting policy and the requirements of the accounting standards; and - Assessed the work in progress by checking signed customer approvals for the services performed and for the Group's third party costs incurred. • For time and material based contracts, we selected a sample of revenue recognised by selecting invoices from the billing system and performed the following procedures: - For services performed, we compared details to customer invoices issued, customer estimate approvals, and payment. - For third party costs, we compared details to supplier invoices and payments. • For stage of completion estimations we checked total estimated revenue of the expected contracted value of the service to signed customer contracts. We challenged the

The key audit matter	How the matter was addressed in our audit
	Group's estimate of stage of completion by corroborating the estimates used with the business unit project managers on a sample basis. • We selected a sample of revenue recorded close to the reporting date to test that the timing of revenue recognition was consistent to the Group's accounting policy and contract terms.

Recoverable amount of goodwill and intangible assets	
Refer to Note 10 Intangible assets ($110.1 million)	
The key audit matter	**How the matter was addressed in our audit**
Recoverable amount of goodwill and intangible assets is a Key Audit Matter due to: • The size of the balance (being 60% of total assets); and • The level of judgement required by us in evaluating management's assessment of recoverability as contained in their value in use model; and • The assessment of impairment of the Group's goodwill balances incorporates significant judgments in respect of factors such as discount rates, consideration of the impact of current work in progress as well as economic assumptions such as, future industry growth rates and foreign currency rates.	Our procedures included: • Detailed discussions with management of operations across the Group to understand expected future performance of the business. We challenged the Group's significant judgements by comparing the revenue and cost assumptions in the value in use model used to test goodwill for impairment, including exchange rates and geographical growth rates, to external sources of evidence such as third party expectations of future industry growth rates, exchange rate data and our knowledge of the client and the industry. • We involved KPMG Corporate Finance specialists in challenging the discount rate used by the Group in the value in use model, by comparing these against industry data and publicly available market data for comparable entities, adjusted by specific risk factors and historic trends. • We checked revenue and cashflow data used in the value in use model to the latest forecasts approved by the Board. • We assessed the accuracy of previous Group cash flow forecasts to inform our evaluation of forecasts incorporated in the value in use model.

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The key audit matter	How the matter was addressed in our audit
	• We performed sensitivity analysis to identify those assumptions at a higher risk of bias or inconsistency in application and enabled us to assess the impact a change in these key assumptions would have on the model and valuation made by the Group.

Acquisition accounting

Refer to Note 21 Acquisition

The key audit matter	How the matter was addressed in our audit
The acquisition of Orchard Marketing Pty Limited ("Orchard") is a key audit matter due to the size of the acquisition (purchase price of $25.4 million) and the judgement required by us in respect to assessing; • The completeness of the Group's identification of acquired intangible assets such as customer contracts and relationships; • Key assumptions and estimates used by the Group when determining the intangible asset valuations, including estimated future cash flows, growth rates, discount rates and useful economic lives applied to the intangible asset, requiring the use of our valuation specialists; and • Growth targets used by management in determining the fair value of contingent consideration (earnout) and the associated accounting for contingent consideration as consideration or post- acquisition compensation for shareholders who are owner/founders who are retained as employees.	Our procedures included: • We involved our valuation specialists and challenged the Group's assessment of identifiable intangible assets, the valuation methodologies, key assumptions and estimates, using our industry experience and information from similar business combinations, including; - We assessed the Group's cash flow forecasts by comparing them against Orchard's approved budget; - We challenged the Group's cashflow forecasts having regard to our knowledge of the business and the industry it operates in; - We assessed the growth in revenue and the discount rate against Orchard historic statistics and published studies of industry trends and expectations; and - We assessed the forecast cashflows and customer attrition for the customer relationships valuation by reference to historical Orchard customer attrition rates; and challenged the useful lives assigned to the identified intangible assets, having regard to the expected use of these assets.

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The key audit matter	How the matter was addressed in our audit
	• We inspected and evaluated the sale and purchase agreement underlying the Group's assessment of contingent consideration against the criteria in the accounting standards. • We assessed the probability of achieving the growth targets used by the Group in the fair value of contingent consideration by comparing to historical trends and performance through to the date of acquisition.

Other Information

Other Information is financial and non-financial information in Enero Group Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company and Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

KPMG

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Enero Group Limited for the year ended 30 June 2018, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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 responsibilities

We have audited the Remuneration Report included in pages 23 to 30 of the Directors' report for the year ended 30 June 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our Audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Caoimhe Toouli

Caoimhe Toouli
Partner

Sydney
28 August 2018

Lead Auditor’s Independence Declaration
under section 307 of the Corporations Act 2001

KPMG

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 of Enero Group Limited for the financial year ended 30 June 2018 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

Caoimhe Toouli

Caoimhe Toouli
Partner

Sydney
28 August 2018

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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 31 July 2018.

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
NAOS Asset Management Limited	19,294,381
Perpetual Limited	12,764,785
Forager Funds Management	12,151,108

Unquoted equity securities

As at 31 July 2018 there were no options granted over unissued ordinary shares in the Company.

Voting rights

Ordinary shares – refer to Note 14 Capital and reserves.

Distribution of equity security holders:

Range	Number of equity security holders	Ordinary shares
1 – 1,000	209	113,316
1,001 – 5,000	260	678,736
5,001 – 10,000	112	827,611
10,001 – 100,000	118	3,668,409
100,001 and over	36	80,316,882
	735	85,604954

The number of shareholders holding less than a marketable parcel of ordinary shares is 64.

Twenty largest shareholders

Rank	Name	Units	% of issued capital
1	National Nominees Limited	19,769,786	23.09
2	HSBC Custody Nominees (Australia) Limited	12,873,106	15.04
3	JP Morgan Nominees Australia Limited	11,725,038	13.70
4	RG Capital Multimedia Limited	6,759,020	7.90
5	RG Capital Multimedia Limited	4,511,945	5.27
6	Irish Global Equity Limited	3,703,272	4.33
7	RG Capital Multimedia Limited	3,269,079	3.82
8	CH Global Pty Limited <ABC Investment A/C>	2,548,301	2.98
9	Bond Street Custodians Limited	2,082,896	2.43
10	Irish Global Equity Limited	1,667,025	1.95
11	Mr Felice Testini <GAT Family A/C>	1,632,000	1.91
12	Love Pty Limited <Enero Employee A/C>	1,294,301	1.51
13	Henawall Pty Limited	1,230,838	1.44
14	Teldar Corporation Pty Limited <Teldar Investment A/C>	850,000	0.99
15	Mrs Antonia Collopy	650,000	0.76
16	Irish Global Equity Limited	632,629	0.74
17	Mr George Walter Mooratoff	475,117	0.56
18	Tandem Technical Consultants Pty Limited <Tandem Technical Con A/C>	461,088	0.54
19	Mr Hedley Sandler and Mrs Beverley Sandler <HB Sandler Super Fund A/C>	440,000	0.51
20	Hawkdun Pty Limited	372,000	0.43
Total		**76,947,441**	**89.90**

CORPORATE DIRECTORY

COMPANY SECRETARY
Brendan York

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Telephone: 1300 554 474
Outside Australia: +61 2 8280 7111
Facsimile: +61 2 9287 0303

SECURITIES EXCHANGE
The Company is listed on the Australian Securities Exchange (ASX Code: EGG).

The home exchange is Sydney.

OTHER INFORMATION
Enero Group Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

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Sydney NSW 2000 Australia

AUDITORS
KPMG
International Towers Sydney 3
300 Barangaroo Avenue
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