The Uncommon Element

enero

Enero Group Limited — Annual Report 2019

THE BOUTIQUE FORCE IN MODERN MARKETING

Enero Group is a curated collection of marketing and communications businesses combining creative dynamism with objective analysis to deliver clients the perfect chemical reaction of intellect and imagination, as represented by the work of over 600 employees in 15 cities around the world.

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.

Our Group offering covers four key areas of excellence spanning the marketing services landscape:

- Insight, Strategy, Data and Analytics;
- Creative and Content;
- PR and Integrated Communications; and
- Digital and Technology.

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 who 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.

John Porter
Independent Non-Executive Chairman

CHAIRMAN'S REPORT

FY19 was a breakout year for the Group with significant financial momentum and material improvements in all financial metrics.

Dear Shareholders

I am very pleased to report on the progress of the Group this year.

FY19 was a breakout year for the Group with significant financial momentum and material improvements in all financial metrics. Net profit to equity holders pre-significant items of $12.1m was 54% up on the prior year. Earnings per share pre-significant items of 14.2 cps was 53% up on the prior year. The Group achieved a 16% Operating EBITDA margin, which is in line with industry benchmarks, and in fact above when taking into account support office costs included in our results. We are cautiously optimistic we can continue to achieve organic revenue growth, which had a very impressive 14% year-on-year increase in 2019.

While the industry continues to change with pace, we remain agile in determining our set-up and shape. The Group's size continues to be an advantage in a time where the ability to integrate capability is more important than ever before. There has been a very measured change implemented in FY19 to reduce the number of operating brands, which allows for more concentration and investment deployed on larger businesses with greater opportunities and therefore increasing the chances of better returns. Our larger businesses are better equipped to attract and retain the top talent in the market and win bigger clients. The Group has a strong level of diversification of clients and services, with no single client making up more than 12% of total Group net revenue.

The Board declared an FY19 final dividend of 3.0 cents per share, fully franked, in August 2019. This brings total dividends paid for FY19 to 5.5 cents per share, fully franked – a 39% dividend payout ratio and a 37.5% increase in dividends from the prior year. While the dividend payout ratio is marginally lower than last year, we are committed to maintaining balance sheet flexibility at this time when we may need to react quickly to investment opportunities as they arise and always being cognisant of our ongoing commitments to contingent consideration. Structuring contingent consideration does result in some leverage, however the incentives for sellers to drive future performance and linking the total purchase price to agreed financial outcomes are aligned with creating and protecting long-term shareholder value. As at 30 June 2019, the Group had a net cash position of $9.5m meaning there is room to conservatively deploy more capital.

We will continue to pursue further acquisition opportunities aligned with filling out our geographical or service areas which need greater capability and more scale. International markets will likely be the area of focus in line with our intention to unlock greater revenue opportunities. While it has been slow progress, patience in finding the right cultural fit is a vital factor in the ultimate success of any future integrated offering and we are confident likeminded agencies who share similar strategic ambitions are out there.

In the meantime, we are open to investments in our existing businesses if the right opportunities present themselves and we have been open to alternative ways to expand our footprint, such as Hotwire's affiliation agreement with The Hoffman Agency. This affiliation is providing Hotwire with a true global reach for its clients through The Hoffman Agency's presence in Asia and vice versa for its clients in the UK and Europe.

The Group continues to generate strong cash flows converting Operating EBITDA to cash at 103% in FY19 and generally has low future capital requirements thanks to the co-location strategy.

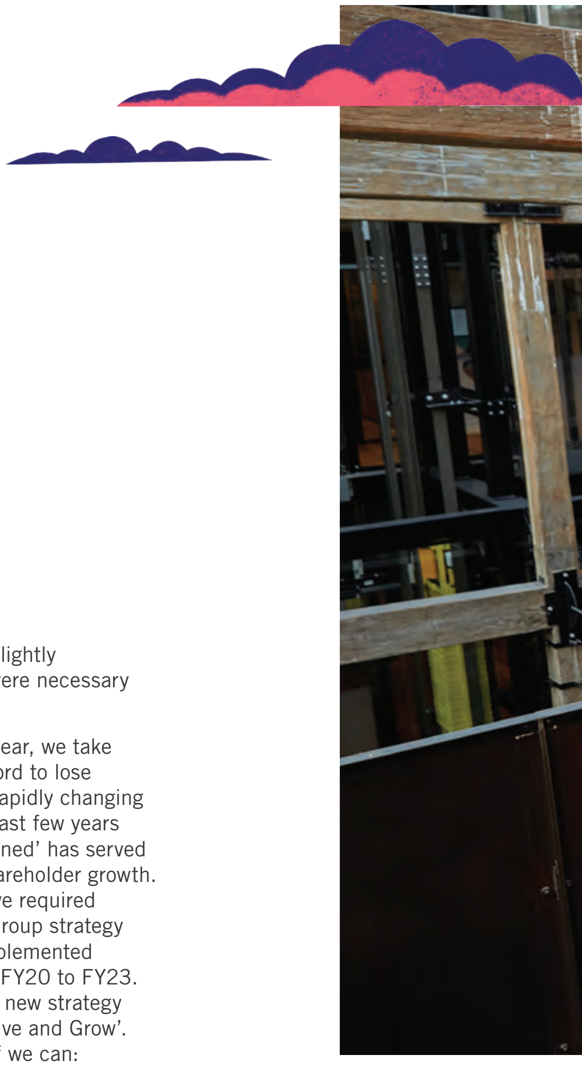
I would like to welcome Ian Rowden as a new Independent Non-Executive Director who joined the Board last November. Ian has a vast depth of experience both on the client and agency sides particularly in the creative agency space, which gives our Board a new level of insight into the client buying perspective. Additionally, his proximity to the USA market, now a key geographic driver for our growth, is also very valuable.

Thank you to my fellow Board members for your ongoing support during the year.

On behalf of the Board, I would like to sincerely thank all of the 600 talented staff we have working in the Group for their contributions over the past year. Their hard work and relentless drive has given the Group a great platform for further growth. As I continue to be based in Europe, I have had a chance to spend time with some of the UK and European teams in particular – and they all exhibit the same positive approach to clients and their fellow staff as we see in our Sydney hub office.

Finally, thank you to shareholders for your ongoing support of the Group and I look forward to reporting back next year with more progress.

CEO'S REPORT



FY19 has proven to be an excellent year with very good results demonstrating that our businesses are performing in a stronger and more consistent manner.

Dear Shareholders

FY19 has proven to be an excellent year with very good results demonstrating that our businesses are performing in a stronger and more consistent manner. Financially the Group has delivered substantial increases across key metrics including:

- Revenue up 25% to $129.5m;
- EBITDA up 53% to $20.7m;
- Operating EBITDA margin up to 16%;
- EBIT up 69% to $17.4m; and
- Net profit after tax pre significants to equity owners up 54% to $12.1m.

The Australian market performed well in FY19, on the back of a full year contribution from Orchard Marketing. Orchard has brought increased digital capabilities into the Group and has also provided a large portfolio of healthcare clients, which operate in a high growth sector.

BMF maintained its position as 'Australia's most effective agency' and continued to trade well with notable client wins including Tourism Tasmania and Agoda. BMF continued its exemplary relationship with ALDI stores, now spanning 19 years, and also conducted numerous important campaign projects for the Australian Federal Government.

In Australia, FY19 included two moves in our journey to simplify and streamline our Group:

- Merging Precinct, our stakeholder communications business, into Hotwire; and
- Merging Naked, our smaller strategic and creative agency, into BMF.

In both cases, there are significant benefits to clients, staff and all stakeholders by combining capabilities.

In the USA, we have seen a rapid growth acceleration in the current year from both Hotwire and OBMedia. Substantial new Hotwire clients including Adobe, Facebook, NetApp and Cummins Electric have led to more multi-office opportunities across the entire Hotwire international network.

In the UK, Hotwire and Frank continue to hold their long-standing records as the most profitable public relations businesses in their region. Across both the UK and Europe, FY19 included senior hires ahead of the revenue curve, which while slightly dampening the achieved margins were necessary steps to underpin future growth.

While FY19 has been a very good year, we take nothing for granted and cannot afford to lose momentum in our fast paced and rapidly changing sector. The Group strategy of the past few years of 'Remedial, Reliable and Reimagined' has served us well and ultimately delivered shareholder growth. However, changes in our sector have required fresh thinking so we revisited the Group strategy planning process and have now implemented a new strategic plan for the period FY20 to FY23. Enero is in a growth phase and the new strategy embraces themes of 'Simplify, Evolve and Grow'. To that end we will be successful if we can:

- Better integrate our brands and businesses, so that we reduce complexity and make our Group simpler and easier to navigate for our clients and for our colleagues;
- Strengthen and focus our Group around our key areas of excellence, namely:
  - Strategy, Insight, Data and Analytics;
  - Creative and Content;
  - PR and Integrated Communications; and
  - Digital and Technology;
- Back the stronger, larger businesses and growth opportunities to 'build upon the peaks';
- Have a simpler, more scalable offer, better replicated across key markets, with co-located teams working alongside each other as they do in our Sydney hub;
- Build out our skills, capabilities and talent base across our international office network of 15 cities and growing;
- Maintain the great momentum and positive culture that we already have achieved;
- Enhance our platforms, processes and cultural alignment so that cross-company collaboration becomes as frictionless as possible and the standard operating method;
- Evolve our lead businesses so they are uniquely equipped and ready to compete as the most exciting 'future facing' models within their categories;

Matthew Melhuish
Chief Executive Officer and Executive Director

- Embrace new technologies so that we are as future-fit as we can be on an ongoing basis; and
- Identify, secure and integrate new acquisitions with excellence – strengthening our skillsets, adding new teams and opening up new geographies.

If we achieve the above, we will become a stronger Group, an even better partner for our clients and able to offer more exciting career development opportunities for our people.

These tasks will require us to look at our Group, our brands and our capabilities in new ways and to assist Enero through this process we have appointed a new role, Enero Group Chief Strategy Officer to help navigate the journey. Gavin Coombes has taken this role working alongside the excellent Enero Executive team of Brendan York, Chief Financial Officer, Fiona Chilcott, Chief People and Culture Officer and Cathy Hoyle, Group General Counsel.

Gavin has had direct hands-on experience across a multitude of marketing services agencies including PR, Public Affairs, Digital, Direct, Brand Consulting and Advertising as well as client side, and his unique skillset will be of great value to Enero. Gavin will also have the time, focus and accountability to deep dive and explore how best to shape and commit resources where they will yield the strongest returns for us all. Gavin will be based in Sydney but will have a global remit.

I would like to sincerely thank all our talented employees who give so much every day in their passion for their work and their care for their clients and for their teammates. I am very proud that every year I have written to shareholders we have been able to report a marked step-on from the year before.

We are living through a time of great change through the impact of technology disrupting many sectors plus substantial uncertainty around the geopolitical and macroeconomic forces at play, which are largely outside our control.

While accepting that reality, the re-shaping and disruption in the marketing services sector also offers wonderful opportunities for a small and nimble Group like ours. We believe Enero is at a fantastic inflection point and is perfectly placed to capitalise on the tide of opportunity that is flowing in our favour.

We are building a high performing Group and all of our team are very excited about the year ahead – simplifying, evolving and growing a better future-facing business for our clients, our staff and our shareholders; and we remain very grateful for your continued engagement and ongoing support.

OVERVIEW

FINANCIAL HIGHLIGHTS

$129.5m NET REVENUE ↑ UP 25%

$20.7m OPERATING EBITDA ↑ UP 53%

16% OPERATING EBITDA MARGIN

$12.1m NET PROFIT AFTER TAX BEFORE SIGNIFICANT ITEMS ↑ UP 53%

14.2CPS EARNINGS PER SHARE BEFORE SIGNIFICANT ITEMS ↑ UP 53%

5.5CPS FY19 DIVIDENDS ↑ UP 37.5%

BUSINESS AND CAPABILITIES

INSIGHT, STRATEGY, DATA AND ANALYTICS

THE LEADING EDGE

To help clients find their edge and unleash their hidden potential

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

the digital edge

Experts in online research and data delivery

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

CREATIVE AND CONTENT

bmf

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.

PR AND INTEGRATED COMMUNICATIONS

HOTWIRE

We help brands better engage and connect with customers

Global integrated communications agency operating from Sydney to San Francisco with a borderless mind-set across 34 locations including the UK, US, Mexico, France, Germany, Spain, Italy and Australia, together with exclusive partners Yellow Communications in the Netherlands and Belgium, Active DMC in the Middle East, The Hoffman Agency in Asia and VIANEWS in Brazil, as well as other affiliate partners.

CPR Issues Government Media

Informed. Strategic. Connected.

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

Frank.

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®.

DIGITAL AND TECHNOLOGY

orchard

Invent better

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.

Obmedia •email •display •mobile

Monetising the world's digital audience

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

GEOGRAPHICAL RESULTS

GEOGRAPHICAL CONTRIBUTIONS FROM OPERATING COMPANIES

INTERNATIONAL MARKET CONTRIBUTION

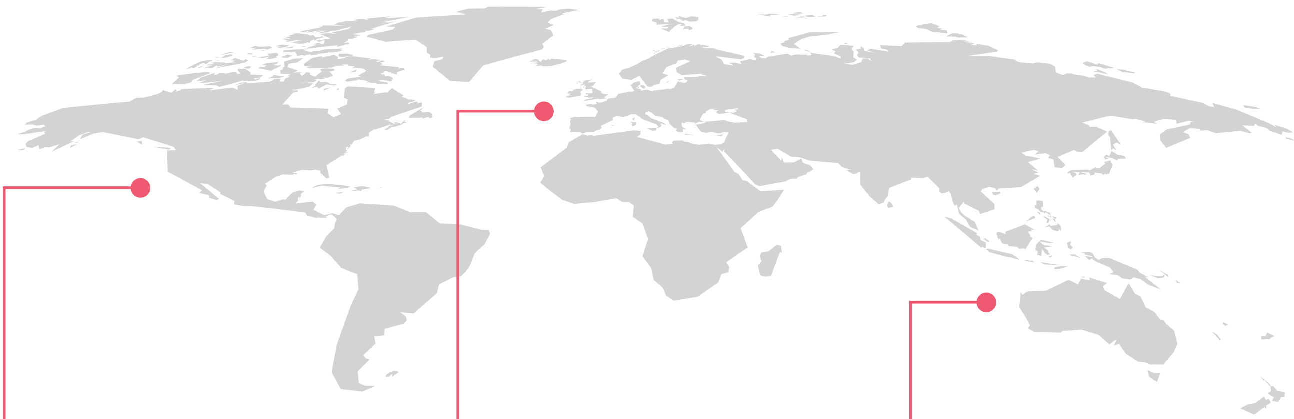
54% of Net Revenue and 61% of Operating EBITDA in FY19 with access to larger overseas markets driving higher organic revenue growth and increased margins.

SYDNEY HUB

Sydney hub office with 300 staff across all key businesses representing an integrated approach to clients.

USA ON THE UP

Exceptional growth in USA market in FY19, delivering a 52% increase in Net Revenue and 189% increase in Operating EBITDA year on year.



USA

24% NET REVENUE FY19

37% OPERATING EBITDA FY19

UK AND EUROPE

30% NET REVENUE FY19

24% OPERATING EBITDA FY19

AUSTRALIA

46% NET REVENUE FY19

39% OPERATING EBITDA FY19

CLIENT ANALYSIS

REVENUE BY INDUSTRY

CLIENTS REPRESENTED ACROSS MULTIPLE INDUSTRIES

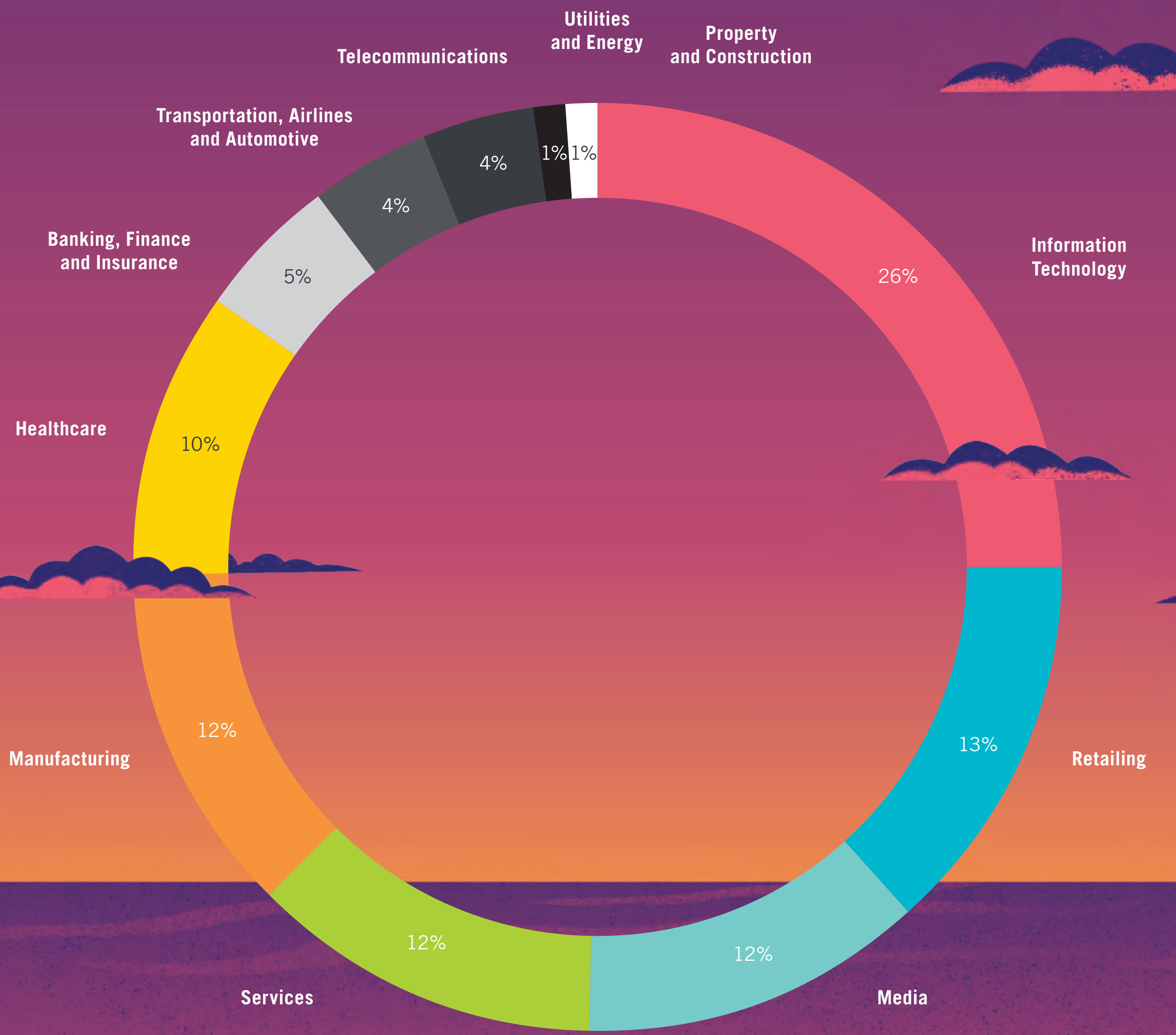
Exposure to high growth sectors of Technology (26% of Revenue) and Healthcare (10% of Revenue).

GLOBAL COLLABORATION

Increases in multi-office and multi-brand client assignments created more global projects and opportunities for staff.

CLIENT DIVERSITY

Diverse client base with over 600 individual relationships; the largest of which is only 12% of Group Revenue.



ENERO AND THE THIRD AGE OF INTEGRATION

Gavin Coombes, Group Chief Strategy Officer, Enero, investigates what it means to offer an 'integrated' advertising and marketing services solution.

It means being able to deliver a promise clients have been waiting on, for three decades.

It was the early 1990s when the advertising industry first added the word 'integration' to its lexicon. This was the same time the agency model began its first evolution away from a commission-based structure on its way to what is today an almost wholly fee-based approach.

The two events were related.

In the commission age, one agency (Leo Burnett) made over $1 billion from a single campaign idea (the Marlboro man). That type of return on creative investment was never going to be replicated in a fee-paying age.

So, agencies began to spread their bets, producing all sorts of marketing and promotional collateral under the banner of 'integration'. With the Internet still largely confined to science labs, there was in reality precious little integrating going on.

It was the late 90's when 'integration' achieved full lift-off in theory if not in practice. This was the dawn of the commercial Internet age, when clients suddenly had a real, live, direct connection to their customers. Or so it was hoped. True integration, however, remained elusive.

The defining thought experiment of the second age was called the 'purchase decision-making cycle'. The idea was that advertising would build awareness and drive customers online, where they would learn all about the products and services and either purchase direct via the web channel or – far more common in the pre-broadband era – pop into their nearest retailer.

As widely used and as popular as it was, there was always something a little artificial about this approach. It assumed consumers would follow a linear pathway, dropping down the sales funnel like a ball through a hoop, barely touching the net. The results didn't bear this out. If it was a robust approach, pets.com and many similar pure plays would still be in business.

Moreover, if the purchase decision-making cycle and related industry promises had truly borne fruit, we would have seen an accompanying decline in pitch review processes where the priority stated outcome was 'greater integration'. Yet demand for integration has in fact increased, with CMOs and CCOs registering greater and greater frustration over time at the inability of their agencies to deliver.

This despite the fact that more and more operating brands have come under the control of major holding companies. The more talk of 'knocking down silos' – with some brands even claiming a 'refounding' – the more elusive true integration becomes.

But this time is different. Really.

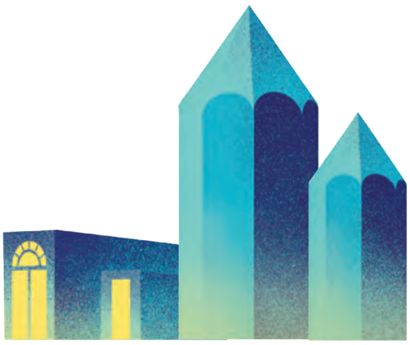
Data is the new oil. Literally. In the past 12 months, the aggregate global value of all data surpassed the value of all known oil reserves. A consumer with a social media presence of average engagement level will have left a trail of up to 70,000 data points. If backed by the right combination of hardware, software and algorithms, a marketer can now design and deploy a mix of messaging, creative and placement targeting micro-segmented consumer groups with laser-guided precision. Genuine '1-to-1' marketing, a promise first made back in the early 90's, can now be delivered upon.

However, to do so requires learning the hard lessons of the recent past. One: resist the temptation to over-promise and force clients down theoretical models unreflective of consumer lives. Two: retain – and even prioritise – the human touch. A machine can tell you where to meet the target, not how to trigger an emotional response. Three: find and hold a clear flight path. This is where a boutique size and a streamlined offer has an advantage.

Over the next 12 months, Enero will begin to refashion its strategic offer so it meets the promise of the third age while stepping around the landmines of the previous two. We will add to our bench of planning talent and we will fine-tune both the positioning of our operating brands and the role of individual strategic planning teams in living up to this refreshed promise. This is so each brand has (a) a clear space in the market; (b) a defined position for the portfolio; and (c) the right balance of complementary and supplementary skillsets relative to sister companies.

Finally, we will be taking a long, careful look at the role to be played by data-driven technology in each of the brands and the Group as a whole. If there is a critical lesson to be learned from the first two ages of integration – both of which fell short of actual integration – it is that new technology is never a panacea despite almost always being treated as such by agencies and clients eager for the promised land they've been seeking for nearly three decades. Some will never find it. Too much legacy, too much scar tissue.

Enero suffers from none of the above. It is perfectly positioned to make the third age a reality; not just another promise.



POTENTIAL UNLEASHED

"Our people are our most important element and I am grateful so many innovative, passionate and talented people are choosing to join our agencies. We take the growth and development of our people seriously – it's the best investment we make. This group of remarkable individuals decided to launch their careers with us; in return our focus is ensuring their experience is exceptional."

Fiona Chilcott
Chief People and Culture Officer, Enero

CHARLENE GAGE

Senior Associate, Hotwire

What drew you to your craft? I always loved reading and telling stories. At the same time, I grew up around and had an interest in technology. I learned that those who designed technology needed help telling their stories which turned out to be the perfect fit for me.

What do you see as the most exciting opportunity on the horizon for your craft/industry? From a day-to-day level, I am most excited for the technology we work with to change how we approach PR, specifically AI. We do our best work when we have the brain space to think and be creative; automating necessary but repetitive tasks gives us a change to do our best work.

What do you want to be great at? I want to be great at boiling down content given to me to determine the single thread that will have the biggest impact and deliver on that impact. For telling interesting and engaging stories.

ANTHONY TODOROVITCH

Finished Artist/Designer/Art Director, BMF

What drew you to your craft? I was always really interested in music and art growing up ... turns out I wasn't so good at music in the end.

What do you want to be great at? Making great work. Work that's entertaining, engaging, effective and intriguing. Creating practical art.

What do you see as the most exciting opportunity on the horizon for your craft/industry? I think the most exciting thing to me is seeing boundaries always being pushed. New and ground-breaking ways of communicating a message are always refreshing.

KATRINA LEO

Project Manager, Orchard

What drew you to your craft? Being a project manager has instilled in me the belief that there's always a solution. It's very rewarding to work with motivated clients and teams, and contribute to projects with new approaches, such as mixing the traditional methods with new digital possibilities from beginning to end.

What do you see as the most exciting opportunity on the horizon for your craft/industry? As the advertising landscape continues to change, we are increasingly called to work across borders, no longer limited to the current place or country we are in. It's exciting, yet challenging; requiring improved communications, transparency in ways of working, and going above and beyond to ensure our clients' success.

What do you want to be great at? While my main role is project management, I get a lot of opportunities to contribute strategically for my clients; a skillset I'm passionate about developing. Recently, I had the opportunity to contribute to one of our global clients' strategy planning in our NYC office, and that was an amazing learning experience.

KELLIE BOX

Strategic Planner, BMF

What drew you to your craft? The ability to use creativity to solve big business problems. Being able to get under the skin of the human problems that could be hindering brand or business success, and then using these insights to help shape both effective and creative work.

What do you see as the most exciting opportunity on the horizon for your craft/industry? Planning itself is a relatively young discipline. As an industry we're still learning and debating the best way to grow brands; how to use channels, and understand our customers. There is never one answer, and I love that. I can't wait to see what another 50 years will teach us.

What do you want to be great at? Planning skills aside, authentic leadership is something I've come to admire. I have experienced first-hand the kind of trust it fosters and the agency culture it builds, making workplaces more than just cubicles and desks, and colleagues more than just managers.

ZAC NAIRN

Junior Designer, Hotwire

What drew you to your craft? A culmination of interests, distractions and missteps allowed me to dabble in film, creative advertising and design. This led me to find my passion for conceptual communication.

What do you see as the most exciting opportunity on the horizon for your craft/industry? The avenues for creative campaigns to be executed using emerging technologies like augmented reality and artificial intelligence fill my mind with possibilities. Aside from that, having recently plunged into my first full-time creative role, everything is exciting.

What do you want to be great at? I want to create impactful campaigns across design and advertising.

ALEXANDRA KOVACS

Junior Account Executive, Frank Australia

What drew you to your craft? I have always been a strong writer and I thrive on developing relationships with new people. Consumer public relations ties these two interests together perfectly within the context of liaising with the media on news from brands.

What do you see as the most exciting opportunity on the horizon for your craft/industry? Cuts to newsrooms have resulted in a shrinking pool of journalists to liaise with and public relations professionals are being pushed to expand our expertise to more creatively engage media and connect with consumers.

What do you want to be great at? Storytelling. Crafting information into messages that impact people's lives – whether that be their impression of a person, or the way they interact with a brand on an everyday basis.

CLIENT SHOWCASE

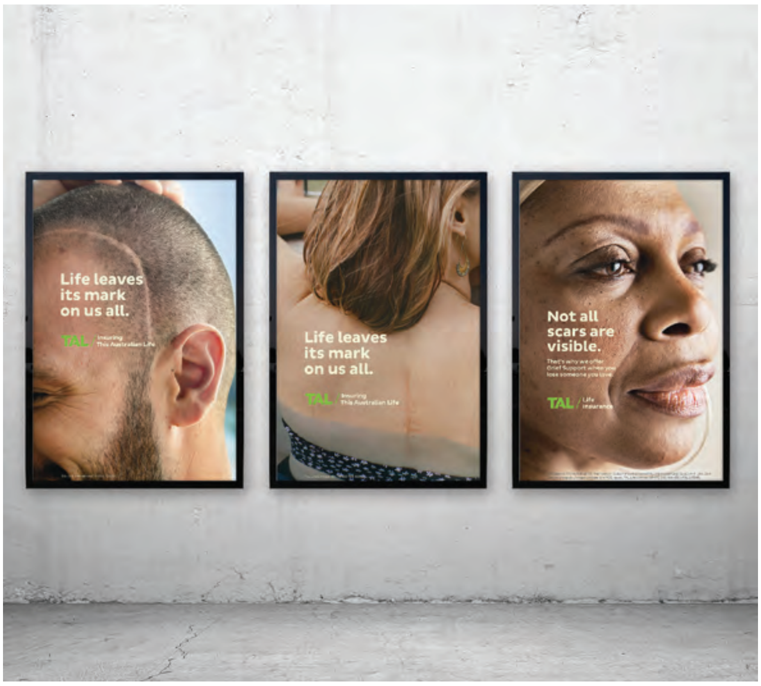
FROM LIFE INSURANCE TO INSURANCE FOR LIFE

Scars integrated campaign

Client: TAL   Agency: BMF

Life insurance should be something people feel good about owning. It's the ultimate friend when you are in need: someone who will help you when you need help the most. But unfortunately, the life insurance category today is both misunderstood and mistrusted. BMF's ambition was to show the strength and resilience of people who have been through a serious illness, injury or bereavement and demonstrate how Australia's leading life insurer, TAL, will be there to support them back to their very best selves.

The integrated campaign shifted TAL's frame of reference from 'life insurance' to 'insurance for life' and broke the category formula of 'fearmongering'. It impacted the audience by showcasing the humanity of Australians' scars and the part TAL plays in helping people move forward in life. A simple, confronting truth that has already exceeded brand perceptions and commercial results.



EXPOSING THE LOYALTY PROGRAM MYTH

Pointless Points campaign

Client: ALDI   Agency: BMF

BMF launched ALDI's Good Different brand positioning to address ALDI's 'discount' supermarket perceptions – an inhibiter to its sales growth. But the Australian duopoly of Coles and Woolworths, 'Colesworths', were cleverly using their competitive advantage of data and 1-2-1 digital channels to neutralise ALDI's everyday low-price promise. Shoppers were ignoring the bigger savings at ALDI, lured and blinded by the lesser but more tangible rewards offered through loyalty programs.

ALDI needed to prove to shoppers that, no matter how many millions of points they collected at other supermarkets, savings have – and always will be – ALDI's loyalty scheme. So, in a country addicted to loyalty points, BMF highlighted just how 'pointless' the big supermarkets' schemes were. With an integrated campaign led by a digital experience dubbed the 'ALDI Loyalty Calculator', shoppers could plug in a reward they were saving for and calculate how long and how much money they would need to spend in order to earn it. The campaign made big headlines but most importantly de-positioned the value of points in a very tangible way, significantly increasing ALDI's total sales and lifting ALDI's low price perceptions.

WHEN PARLIAMENT BECAME A LIBRARY.

Libraries Change Lives campaign

Client: Public Libraries Victoria   Agency: CPR

Victoria's public libraries welcome 30.5 million visitors a year, provide 5 million free Wi-Fi sessions, and generate $4.30 of benefit for every dollar invested. But with demand growing faster than library budgets, how do you encourage busy politicians to advocate increased government support? CPR decided that rather than taking the politicians to the library, why not bring the library to them?

This meant creating a contemporary library experience for every MP at Parliament House, complete with a tri-lingual story time for pre-schoolers, a knitting group, and even four robots delivering STEM education. Plus 2,000 handwritten postcards from community members explaining why library funding matters. The event was part of a broader *Libraries Change Lives* campaign, which gives libraries tools to increase their profiles. This resulted in record State Government funding of $44.7 million announced in June, with the campaign continuing in FY20.

BUILDING IKEA'S REACH WITHOUT BRICKS

On-going tech and digital initiatives

Client: IKEA   Agency: Orchard

IKEA is one of the world's leading brands; changing forever how people shop for homewares. Orchard partners with IKEA to bring the same level of innovation and disruptive thinking to IKEA's tech and digital space.

Working with the Chief Digital Officer over the last 24 months Orchard launched digital initiatives which have helped IKEA disrupt the industry and push the brand into new areas of growth. These include an eCommerce Gift Card site; a Virtual Reality shopping experience to launch IKEA in Queensland; an Augmented Reality solution to support staff training; and a digital shopping experience to launch the smallest IKEA shop in the world.

These initiatives have all shown great promise, with the eCommerce site delivering a return on investment in less than 24 hours.

The smallest IKEA shop in the world is now being upgraded with motion sensors to detect movement, data smarts and a more streamlined eCommerce experience – paving the way for IKEA to explore supported digital shopping experiences across the country.

BRINGING THE SPIRIT OF JAPAN TO AUSTRALIA

New RTD innovation

Client: Beam Suntory   Agency: The Leading Edge

The Leading Edge undertook multi-stage consumer-first innovation exploration and testing, from innovation platforms through to concept, packaging, and sensory with Beam Suntory, identifying growth opportunities within its RTD portfolio.

This culminated recently in the launch of Koyomi Highball, a premium Soda RTD blended with Shochu and seasonal Japanese flavours. This contemporary and sophisticated drink is the first RTD of its kind in the Australian market.

DOMINATING THE DISCUSSION

5G at the Mobile World Congress

Client: Qualcomm Agency: Hotwire

Qualcomm – the global chipmaker and telecoms equipment maker – tasked Hotwire with using the world's biggest mobile event, Mobile World Congress (MWC), to stake its claim as the leader in 5G. To stand out from competitors, rather than indulging in navel gazing about the future, Hotwire decided to focus on the real-world practical impact of 5G. The campaign involved briefing over 150 journalists across seven roundtables and numerous press conferences ensuring that no-one was left in any doubt as to the real-world applications of the technology; creating a hero platform for Qualcomm EMEA president Enrico Salvatori, comprising thought leadership, a keynote talk, and a partner event; and helping attendees navigate the show by creating a bespoke 5G Event Journey Map.

Qualcomm dominated the 5G discussion, with the campaign impact going far beyond the show – delivering over 10,000 pieces of coverage across Europe and a 299% increase in traffic to Qualcomm's site.

LIGHTS, CAMERA, TRACTION.

Northern and Southern Lights campaign

Client: Huawei's P30 Pro handset Agency: Frank

In April 2019, Frank executed one of Huawei's most ambitious projects to date by bringing the Northern Lights to London. Why? To celebrate the launch of the Huawei P30 Pro, the phone with unparalleled low-light photography capabilities. And what better way to show off the handset's low-light capabilities than to photograph a phenomenon which only appears in the dark and is notoriously difficult to capture?

Not only did the stunning event, which took place over three nights at the Tower of London, give consumers the opportunity to try the Huawei handsets, it perfectly conveyed the brand message of 'humanly possible' and was so successful it saw Google searches for the P30 Pro handset increase by a whopping 421%.

More than 4,000 people came to see the spectacle and, following Frank's media outreach, global media coverage was secured, spanning all the way to Australia where Frank replicated the spectacle ... but this time as The Southern Lights, in Sydney's Royal Botanical Gardens, two weeks later.

BLENDING THE PHYSICAL AND DIGITAL WORLDS

Digital transformation journey

Client: Hyundai Agency: Orchard

When the number three brand in market, Hyundai, engaged Orchard to help build a new website, the project quickly evolved into leading its digital transformation journey.

Orchard now works across a number of evolving initiatives, from the Digital Customer Journey to Ownership Experience Strategy; from Purchasing Strategy to Content Strategy. Supporting all of these is the adoption of the Adobe Stack (AEM, Analytics, Target) to deliver the technology. This two to three-year project will deliver a solution to prospects, owners and dealers and will support initiatives across CRM, media and various other partner businesses. The results will be seen across many facets of the business for many years to come.

In the interim, Orchard has been optimising the existing site to deliver incremental improvements without over-investing. These Conversion Optimisation strategies on the website alone have seen some impressive results, including a 45% increase in time on page; a near 30% decrease in bounce rate; and over 100% increase in test drives booked.

FINANCIAL REPORT

for the year ended
30 June 2019

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 2019; 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 (effective April 2013). 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 was a Board member of the Sydney Festival for 9 years and 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 25 years' business experience in media (international television production and distribution and radio) and asset management, and is the Managing Director of RG Capital Holdings (Australia) Pty Ltd. Prior to joining RG Capital, Susan was Chief Financial Officer of Grundy Worldwide Ltd and played an integral role in the establishment of its international television operations and in the eventual sale of the company in 1995. Susan was previously a Director of RG Capital Radio Ltd and E*TRADE Aust Ltd. Susan is a member of the Institute of Chartered Accountants. Susan is a member of the Audit and Risk Committee, and 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 (effective March 2012) as well as a member of its Audit and Risk Committee, and 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 Endevour Colleges, Ngahuia Group Ltd and Food Service Group Australia. Anouk also 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 Chair 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 as a Director of the Group supervisory board of Edelman, the world's largest Public Relations firm, and a member of its global management board. During 13 years at Edelman, he was CEO of the Europe Middle East and Africa (EMEA) region and, latterly, CEO of Asia Pacific Middle East and 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. David is a member of the Audit and Risk Committee.

Ian Rowden – Independent Non-Executive Director

Ian was appointed as a Non-Executive Director on 21 November 2018. Ian is a recognised global business leader whose career has spanned marketing, operational and commercial leadership roles across four continents with some of the world's most admired brands and in the world's most diverse marketplaces. Ian began his career with The Coca-Cola Company in Sydney, Australia in 1980 and for over 20 years he held numerous senior executive roles with that company worldwide. These included Region President for the China Division based in Hong Kong and Global Head of Consumer Communications based in Atlanta, Georgia. From 2000 to 2004 he served as Chief Marketing Officer for The Callaway Golf Company. In 2004 he joined Wendy's International as Chief Marketing Officer, a position he held until 2007 when he was appointed Chairman and CEO, Asia Pacific for Saatchi & Saatchi. From 2011 to 2015 he served as Partner at The Virgin Group and concurrently as a Board Member of Virgin Galactic and Virgin Produced.

Ian is a Director of QMS Media Limited (effective February 2019); is currently a member of the Investment Advisory Board of Innovate Partners LLC, a Los Angeles area based venture capital firm; and is a Board member of private Companies Brightguard and Premier League Basketball (UK) as well as Miami Ad School (US), a non-profit entity. Ian is a member of 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 resigned as a Director on 18 October 2018.

Company Secretary

Brendan York was appointed Company Secretary on 1 July 2012. He is also the Chief Financial Officer 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 2019 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 3.0 cents per share, fully franked. The final dividend will have a record date of 23 September 2019 and a payment date of 8 October 2019. 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.

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 eight marketing and communications services businesses across seven countries with more than 600 employees. The Group is connected through four key service competencies:

- Insight, Strategy, Data and Analytics – The Leading Edge and The Digital Edge;
- Creative and Content – BMF;
- PR and Integrated Communications – Hotwire, Frank and CPR; and
- Digital and Technology – Orchard and OBMedia.

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 $129.5 million, an increase of 25% compared to the prior reporting period. Operating EBITDA of $20.7 million was 53% above the prior reporting period. The Operating EBITDA margin increased from 13.0% in 2018 to 16.0% in 2019. In the current year, the Operating Brands segment generated approximately 54% of its net revenue and 61% of its Operating EBITDA from international markets.

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

- a full year contribution from Orchard Marketing in the current year (2018: a five-month period from February 2018);
- significant growth in the USA market; and
- growth in Integrated Communications and Digital service competencies.

During the year, two operating brands, Precinct and Naked Communications, were merged into Hotwire and BMF respectively – effective for FY20. The basis for these mergers is to simplify the Group's brand portfolio and to increase capabilities in the Group's larger businesses.

DIRECTORS' REPORT

Reconciliation of statutory profit after tax to Operating EBITDA

In thousands of AUD	2019	2018
Net revenue	129,535	103,685
Operating EBITDA	20,722	13,513
Depreciation expenses	(2,209)	(2,548)
Amortisation of intangibles	(1,066)	(667)
Net finance income	467	43
Present value interest	(1,153)	(628)
Gain on sale of business asset	–	627
Contingent consideration fair value loss	(6,390)	–
Profit before tax	10,371	10,340
Income tax expense	(2,297)	(1,253)
Statutory profit after tax	8,074	9,087

Significant items

The Company incurred the following significant one-off items:

2019

Contingent consideration fair value loss of $6,390,000 relating to revaluation of future contingent consideration payable to the vendors of Eastwick Communications.

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.

Capital management

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 businesses. The Group continues to seek acquisition opportunities that are aligned with Group strategy from a geographical or expansion of services perspective.

Acquisitions

2019

There were no acquisitions in 2019.

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.

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 2019, the Company's estimated contingent consideration liability is $33.8 million.

Cash and Debt

In thousands of AUD	2019	2018
Cash and cash equivalents	43,831	34,379
Hire purchase liabilities	(493)	(1,916)
Contingent consideration liabilities	(33,801)	(25,802)
Net cash	9,537	6,661

The Group has $43.8 million in cash as at 30 June 2019. 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 $18.1 million from an Operating EBITDA of $20.7 million for the year ended 30 June 2019 (103% 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 competencies –

- Insight, Strategy, Data and Analytics;
- Creative and Content;
- PR and Integrated Communications; and
- Digital and Technology

– serviced from three key geographic locations – Australia, UK and Europe, and USA – solving clients' marketing needs through innovative solutions.

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 of intangibles, gain on sale of business assets and contingent consideration fair value loss. Operating EBITDA, reconciled in the table above, 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:			
2018 Final dividend	2.5	2,140	8 October 2018
2019 Interim dividend	2.5	2,140	18 March 2019

Subsequent to the balance sheet date, the Directors have declared a final dividend, with respect to ordinary shares, of 3.0 cents per share – fully franked with a payment date of 8 October 2019. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2019 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 2019, a total of 651,575 shares (2018: 297,184 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 2019, the Company has 642,726 shares (30 June 2018: 1,294,301 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 2019, a total of 6,500,000 Share Appreciation Rights (30 June 2018: 5,000,000) 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 2019	1,349,997	$1.04
30 September 2019	1,500,000	$1.23
30 September 2020	1,350,005	$1.04
30 September 2020	1,500,000	$1.23
30 September 2020[(i)]	666,666	n/a
30 September 2021	1,500,000	$1.23
30 September 2021[(i)]	666,667	n/a
30 September 2022[(i)]	666,667	n/a
Total	9,200,002	

(i) Grant is in relation to SARs provided to the CEO, which were issued on 28 June 2019, subject to shareholder approval.

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	6	–	–	2	3
Matthew Melhuish	6	6	–	–	–	–
Susan McIntosh	6	6	4	4	3	3
Anouk Darling	6	6	4	4	–	–
David Brain	6	6	3	3	–	–
Ian Rowden	3	3	–	–	1	2
Roger Amos	1	1	1	1	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	1,712,747	4,466,667
Susan McIntosh	122,223	Nil
Anouk Darling	19,607	Nil
David Brain	75,000	Nil
Ian Rowden	Nil	Nil
Total	**2,200,410**	**4,466,667**

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, Anouk Darling, David Brain, Ian Rowden 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.

DIRECTORS' REPORT

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.

	2019 $	2018 $
Services other than statutory audit		
Auditors of the Company		
Taxation compliance services:		
KPMG Australia	–	8,000
Overseas KPMG firms	186,000	181,000
Total services other than statutory audit	186,000	189,000

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 2019.

Rounding off

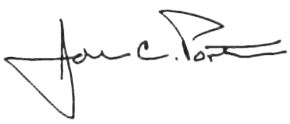
The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and, in accordance with that Class Order, amounts in the consolidated financial statements and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise 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 2019.



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 2019. 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)
Susan McIntosh	Non-Executive Director
Anouk Darling	Non-Executive Director
David Brain	Non-Executive Director
Ian Rowden(i)	Non-Executive Director
Roger Amos(ii)	Non-Executive Director (Deputy Chairman)
Executives	
Matthew Melhuish	Chief Executive Officer
Brendan York	Chief Financial Officer
Fiona Chilcott	Chief People and Culture Officer

(i) Ian Rowden was appointed as a Director on 21 November 2018.
(ii) Roger Amos resigned as a Director on 18 October 2018.

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.

The Remuneration and Nomination Committee operates independently of the Enero Executive team and engages directly with remuneration advisors.

Ernst & Young was engaged in the year ended 30 June 2019 in relation to the review of the Group's Long Term Incentive (LTI) framework and to provide alternative LTI plans for the Committee to consider. The remuneration adviser did not make any recommendations to the Committee. The total fees paid to the remuneration adviser were $8,500.

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.

In structuring the remuneration mix for each role, the Board aims to balance fixed and variable remuneration to best achieve short-term and long-term performance outcomes.

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	**19 October 2017**	**18 October 2018**	**28 June 2019 (i)**
SARs issued	5,000,000	4,500,000	2,000,000
Participants	CEO and Senior Executives	CEO and Senior Executives	CEO
VWAP for the 20 business days prior to the grant (B)	$1.04	$1.23	n/a
Vesting dates: 20 business days after the release of the Group financial report for the year ended:			
Tranche 1	30 June 2018 – 1/3rd	30 June 2019 – 1/3rd	30 June 2020 – 1/3rd
Tranche 2	30 June 2019 – 1/3rd	30 June 2020 – 1/3rd	30 June 2021 – 1/3rd
Tranche 3	30 June 2020 – 1/3rd	30 June 2021 – 1/3rd	30 June 2022 – 1/3rd
Last expiry date	30 September 2020	30 September 2021	30 September 2022
Outstanding SARs as at 30 June 2019	2,700,002	4,500,000	2,000,000

(i) Grant is in relation to SARs provided to the CEO, which were issued on 28 June 2019, subject to shareholder approval. Upon shareholder approval, the VWAP for the 20 business days prior to the grant date will be confirmed.

DIRECTORS' REPORT

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)
Chief Executive Office	30 June 2022	6 months	6 months	6 months base salary	6 months base salary
Chief Financial Officer	Rolling	6 months	3 months	6 months base salary	3 months base salary
Chief People and Culture Officer	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 2019.

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 2019 and 30 June 2018:

	2019 $	2018 $
Base fees – annual		
Chairman	120,000	120,000
Other Non-Executive Directors	75,000	75,000
Committee fees – annual		
Audit and Risk Committee – Chair	10,000	10,000
Remuneration and Nomination Committee – Chair	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 2019 amounted to $426,936 (30 June 2018: $375,865), which is 56.9% 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	2019	120,000	–	–	–	–	–	120,000	–
	2018	120,000	–	–	–	–	–	120,000	–
Susan McIntosh	2019	68,493	–	–	6,507	–	–	75,000	–
	2018	68,493	–	–	6,507	–	–	75,000	–
Anouk Darling	2019	74,898	–	–	7,115	–	–	82,013	–
	2018	68,493	–	–	6,507	–	–	75,000	–
David Brain(v)	2019	75,000	–	–	–	–	–	75,000	–
	2018	10,865	–	–	–	–	–	10,865	–
Ian Rowden(v)	2019	46,058	–	–	–	–	–	46,058	–
	2018	–	–	–	–	–	–	–	–
Roger Amos(vi)	2019	26,361	–	–	2,504	–	–	28,865	–
	2018	86,758	–	–	8,242	–	–	95,000	–
Executive Director									
Matthew Melhuish, Director and CEO	2019	800,000	492,319	(30,744)	20,531	14,971	260,149	1,557,226	48.32
	2018	800,000	164,010	6,891	20,049	14,940	105,038	1,110,928	24.22
Executives									
Brendan York, Chief Financial Officer	2019	350,000	222,319	1,609	20,531	6,795	141,690	742,944	49.00
	2018	350,000	74,010	3,139	20,049	6,768	66,634	520,600	27.02
Fiona Chilcott(vii), Chief People and Culture Officer	2019	437,601	222,319	(1,101)	20,531	821	136,902	817,073	43.96
	2018	301,090	63,958	12,665	18,703	237	41,686	438,339	24.10

(i) The short-term incentive bonus is for performance during the 30 June 2019 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) David Brain and Ian Rowden were appointed as Directors on 10 May 2018 and 21 November 2018 respectively.

(vi) Roger Amos resigned as Director on 18 October 2018.

(vii) Fiona Chilcott was appointed 23 August 2017 and became KMP on that date. Fiona was seconded to the USA from 6 August 2018 and the remuneration disclosures for 2019 represent the USD compensation components converted to AUD at average exchange rates for the year.

(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)	Actual STI as a % of maximum STI	% of maximum STI forfeited	Included in remuneration $	% vested in year
Company Executives						
Matthew Melhuish	Revenue and Operating EBITDA target	60%	86%	14%	492,319	100
Brendan York	Revenue and Operating EBITDA target	60%	86%	14%	222,319	100
Fiona Chilcott	Revenue and Operating EBITDA target	60%	86%	14%	222,319	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.

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 2019	Number of rights granted during 2019	Grant date	Fair value per right at grant date $	VWAP (for the 20 business days prior to the grant) $	Expiry date(ii)
Company Executives						
Matthew Melhuish	SAR	1,800,000	18 Oct 2018	0.20 – 0.31	1.23	30 Sept 2021
Matthew Melhuish(i)	SAR	2,000,000	28 Jun 2019	n/a	n/a	30 Sept 2022
Brendan York	SAR	900,000	18 Oct 2018	0.20 – 0.31	1.23	30 Sept 2021
Fiona Chilcott	SAR	900,000	18 Oct 2018	0.20 – 0.31	1.23	30 Sept 2021

(i) Grant is in relation to SARs provided to the CEO which were issued on 28 June 2019, subject to shareholder approval. Upon shareholder approval, the VWAP for the 20 business days prior to the grant date and fair value per right at grant date will be confirmed.

(ii) The dates reflected in the table above represent the last vesting date for the SAR grant. 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, but no later than, 30 September each year.

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	19 Oct. 2017	33	33	67	30 Sep 2018, 30 Sep 2019 and 30 Sep 2020
	1,800,000	SAR	18 Oct. 2018	–	–	100	30 Sep 2019, 30 Sep 2020 and 30 Sep 2021
	2,000,000	SAR	28 Jun. 2018	–	–	100	30 Sep 2020, 30 Sep 2021 and 30 Sep 2022
Company Executives							
Brendan York	600,000	SAR	19 Oct. 2017	33	33	67	30 Sep 2018, 30 Sep 2019 and 30 Sep 2020
	900,000	SAR	18 Oct. 2018	–	–	100	30 Sep 2019, 30 Sep 2020 and 30 Sep 2021
Fiona Chilcott	600,000	SAR	19 Oct. 2017	33	33	67	30 Sep 2018, 30 Sep 2019 and 30 Sep 2020
	900,000	SAR	18 Oct. 2018	–	–	100	30 Sep 2019, 30 Sep 2020 and 30 Sep 2021

(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 Jul 2018	Granted as remuneration in year	Cancelled	Exercised	Granted held at 30 Jun 2019	Vested during the year	Vested and exercisable at 30 Jun 2019	Value of rights granted during the year $	Value of rights exercised during the year $
Director									
Matthew Melhuish[(i)]	1,333,334	3,800,000	–	(666,667)	4,466,667	666,667	–	471,000	133,334
Executives									
Brendan York	800,000	900,000	–	(400,000)	1,300,000	400,000	–	235,500	80,000
Fiona Chilcott	600,000	900,000	–	(200,000)	1,300,000	200,000	–	235,500	24,000

(i) SARs granted during the year include 2,000,000 SARs provided to the CEO which were issued on 28 June 2019, however are subject to shareholder approval. Upon shareholder approval, fair value of SARs at grant date will be confirmed. Accordingly, values of these SARs are not included in the disclosure relating to value of rights granted during the year.

No share-based payments held by KMP are vested but not exercisable at 30 June 2019.

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 2018	Purchases	Issued as remuneration	Received on exercise of rights	Sales	Held at 30 June 2019
Directors						
John Porter	270,833	–	–	–	–	270,833
Matthew Melhuish	1,546,080	–	–	166,667	–	1,712,747
Susan McIntosh	122,223	–	–	–	–	122,223
Anouk Darling	19,607	–	–	–	–	19,607
David Brain	–	75,000	–	–	–	75,000
Ian Rowden[(i)]	–	–	–	–	–	–
Roger Amos[(ii)]	31,390	–	–	–	–	31,390
Executives						
Brendan York	206,392	–	–	100,000	(18,500)	287,892
Fiona Chilcott	–	–	–	20,690	(20,690)	–

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

(ii) Closing balance represents shares held at the date of resignation.

10 Loans to Key Management Personnel

No loans to Key Management Personnel and their related parties were made during the year or 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 2019	30 June 2018	30 June 2017	30 June 2016	30 June 2015
Metric					
Net Revenue ($'000)	129,535	103,685	100,172	113,488	110,347
Operating EBITDA ($'000)	20,722	13,513	10,364	13,220	9,202
Operating EBITDA margin (%)	16.00%	13.03%	10.35%	11.65%	8.34%
Net Profit to equity holders pre significant items ($'000)	12,051	7,846	4,893	6,584	1,525
Earnings Per Share pre significant items (cps)	14.2	9.3	5.9	8.0	1.9
Earnings Per Share basic (cps)	6.7	10.1	2.2	8.0	(3.4)
Total Dividends Per Share (cps)(i)	5.5	4.0	5.0	–	–
Opening share price (1 July) ($)	1.06	1.03	1.25	0.71	1.08
Closing share price (30 June) ($)	1.42	1.06	1.04	1.25	0.78

(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 53% increase in EPS (pre significant items) year on year;
- increase in USA market presence;
- simplification of the Operating Brands portfolio; 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 2019

In thousands of AUD	Note	2019	2018 Restated
Gross revenue	3	230,032	163,288
Directly attributable costs of sales	3	(100,497)	(59,603)
Net revenue	3	129,535	103,685
Other income		124	239
Employee expenses		(88,173)	(72,310)
Occupancy costs		(7,202)	(6,838)
Travel expenses		(2,060)	(1,536)
Communication expenses		(2,413)	(2,121)
Compliance expenses		(2,057)	(1,261)
Depreciation and amortisation expenses		(3,275)	(3,215)
Administration expenses		(7,032)	(6,345)
Gain on sale of business asset	22	–	627
Contingent consideration fair value loss	12	(6,390)	–
Finance income		574	252
Finance costs	4	(1,260)	(837)
Profit before income tax		10,371	10,340
Income tax expense	5	(2,297)	(1,253)
Profit for the year		8,074	9,087
Attributable to:			
Equity holders of the parent		5,661	8,473
Non-controlling interests		2,413	614
		8,074	9,087
Basic earnings per share (AUD cents)	16	6.7	10.1
Diluted earnings per share (AUD cents)	16	6.6	10.0

* The Group has initially applied AASB 15 *Revenue from Contracts with Customers* and AASB 9 *Financial Instruments* as at 1 July 2018. Under the respective transition methods chosen, comparative information is restated for AASB 15 but not for AASB 9. Refer to Note 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 2019

In thousands of AUD	Note	2019	2018
Profit for the year		8,074	9,087
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		1,461	4,312
Total items that may be reclassified subsequently to profit or loss		1,461	4,312
Other comprehensive income for the year, net of tax		1,461	4,312
Total comprehensive income for the year		9,535	13,399
Attributable to:			
Equity holders of the parent		7,074	12,755
Non-controlling interests		2,461	644
		9,535	13,399

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 2019

					Attributable to owners of the Company					
In thousands of AUD	Note	Share capital	Retained profits	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 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
Opening balance at 1 July 2018		96,656	1,427	25,235	12,106	(1,417)	(19,767)	114,240	832	115,072
Adjustment on initial application of AASB 9 (net of tax)		–	(133)	–	–	–	–	(133)	–	(133)
Profit for the year		–	5,661	–	–	–	–	5,661	2,413	8,074
Other comprehensive income for the year, net of tax		–	–	–	–	–	1,413	1,413	48	1,461
Total comprehensive income for the year		–	5,661	–	–	–	1,413	7,074	2,461	9,535
Transactions with owners recorded directly in equity:										
Shares issued to employees on exercise of Share Appreciation Rights	15	756	–	–	(756)	–	–	–	–	–
Dividends paid to equity holders		–	–	(4,280)	–	–	–	(4,280)	(1,562)	(5,842)
Share-based payment expense		–	–	–	730	–	–	730	–	730
Closing balance at 30 June 2019		97,412	6,955	20,955	12,080	(1,417)	(18,354)	117,631	1,731	119,362

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 JUNE 2019

In thousands of AUD	Note	2019	2018
Assets			
Cash and cash equivalents	6	43,831	34,379
Trade and other receivables	7	33,791	27,197
Other assets	8	5,297	4,173
Income tax receivable	5	54	–
Total current assets		82,973	65,749
Deferred tax assets	5	2,459	1,735
Plant and equipment	9	5,877	6,323
Other assets	8	197	136
Intangible assets	10	110,384	110,056
Total non-current assets		118,917	118,250
Total assets	2	201,890	183,999
Liabilities			
Trade and other payables	11	38,380	31,840
Contingent consideration payable	12	11,519	–
Interest-bearing loans and borrowings	17	493	1,423
Employee benefits	13	4,173	3,545
Income tax payable	5	507	1,138
Provisions	14	646	267
Total current liabilities		55,718	38,213
Contingent consideration payable	12	22,282	25,802
Interest-bearing loans and borrowings	17	–	493
Employee benefits	13	659	728
Provisions	14	3,869	3,691
Total non-current liabilities		26,810	30,714
Total liabilities	2	82,528	68,927
Net assets		119,362	115,072
Equity			
Issued capital	15	97,412	96,656
Other reserves		(7,691)	(9,078)
Profit appropriation reserve		20,955	25,235
Retained profits		6,955	1,427
Total equity attributable to equity holders of the parent		117,631	114,240
Non-controlling interests		1,731	832
Total equity		119,362	115,072

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 2019

In thousands of AUD	Note	2019	2018
Cash flows from operating activities			
Cash receipts from customers		241,791	209,778
Cash paid to suppliers and employees		(220,458)	(194,047)
Cash generated from operations		21,333	15,731
Interest received		574	252
Income taxes paid		(3,665)	(1,554)
Interest paid		(107)	(209)
Net cash from operating activities	6	18,135	14,220
Cash flows from investing activities			
Proceeds from disposal of non-current assets		22	9
Consideration from sale of business asset	22	–	627
Acquisition of plant and equipment		(1,700)	(1,641)
Acquisition of a business, net of cash acquired	21	–	(4,397)
Contingent consideration paid	12	–	(4,492)
Net cash used in investing activities		(1,678)	(9,894)
Cash flows from financing activities			
Finance lease payments	17	(1,423)	(1,351)
Dividends paid to equity holders of the parent	15	(4,280)	(1,284)
Dividends paid to non-controlling interests in controlled entities		(1,562)	(516)
Net cash used in financing activities		(7,265)	(3,151)
Net increase in cash and cash equivalents		9,192	1,175
Effect of exchange rate fluctuations on cash held		260	692
Cash and cash equivalents at 1 July		34,379	32,512
Cash and cash equivalents at 30 June	6	43,831	34,379

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 2019

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 2019 comprise the Company and its subsidiaries (together referred to as the 'Group').

The financial statements for the year ended 30 June 2019 were authorised for issue in accordance with a resolution of the Directors on 28 August 2019.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

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

Except for the impact of new accounting standards adopted this year as described below, the accounting policies provided throughout Notes 1 to 30 of this report have been applied consistently to all periods presented in the consolidated financial statements.

(g) New standards and interpretations

(i) New Standards Adopted

The Group has initially adopted AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* as at 1 July 2018. The effect of applying these standards is mainly attributed to the following:

- AASB 9 *Financial Instruments*: an increase in impairment losses recognised on financial assets; and
- AASB 15 *Revenue from Contracts with Customers*: adjustments to the recognition of Gross Revenue and Directly attributable cost of sales due to the re-assessment of the Principal versus Agency relationship.

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.

Effective 1 July 2018, the Group adopted AASB 9, where the cumulative effect of the initial application is recognised as an adjustment to opening retained earnings at 1 July 2018.

The only substantial impact on the Group of adopting AASB 9 is relating to provisioning for doubtful debts on trade receivables. The doubtful debt provision will now be determined with reference to a percentage of the expected credit loss of the gross value of the trade receivables.

The following table summarises the impact, net of tax, on transition to AASB 9 on the opening balance of retained earnings at 1 July 2018:

In thousands of AUD	
Retained earnings	
Recognition of expected credit losses under AASB 9	(190)
Related tax	57
Impact, net of tax	(133)

The additional impairment recognised at 1 July 2018 was determined with reference to the average credit loss over the last three financial years. The average credit loss was 0.7% of trade receivables. Applying this percentage against the trade receivable balance at 1 July 2018 of $27,083,000, an additional $190,000 impairment was required on transition.

AASB 15 *Revenue from Contracts with Customers*: establishes a comprehensive framework for determining revenue recognition. 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.

The core principle is to recognise revenue depicting the transfer of promised services to customers in an amount that reflects consideration to which the Group expects to be entitled in exchange for those services.

Effective 1 July 2018, the Group adopted AASB 15, using the retrospective method where comparative prior periods have been adjusted and restated under AASB 15. The initial adoption of this standard did not have an impact on the timing of the Group's revenue recognition nor on the Group's net assets. However, the adoption of AASB 15 resulted in certain customer contractual arrangements, previously being accounted for as a principal, now being accounted for as agent following an assessment of the characteristics of the relationship between the Group, its customers and certain suppliers. The determination was made reviewing whether the Group obtained control over the good or service before it was transferred to the customer.

As a result of the adoption of AASB 15, certain third party costs are no longer included in gross revenue and directly attributable cost of sales. The change had no impact on net revenue, profit or earnings per share. In accordance with the transition provisions of AASB 15, the Group has re-stated comparatives for the prior year.

The following table summarises the impact on the consolidated income statement for the year ended 30 June 2019:

In thousands of AUD	As reported	Adjustment	Amount without adoption of AASB 15
Gross revenue	230,032	38,642	268,674
Directly attributable cost of sales	(100,497)	(38,642)	(139,139)
Net revenue	129,535	–	129,535
Profit before income tax	10,371	–	10,371
Income tax expense	(2,297)	–	(2,297)
Profit for the year	8,074	–	8,074

The following table summarises the impact on the consolidated income statement for the year ended 30 June 2018:

In thousands of AUD	As reported	Adjustment	Amount without adoption of AASB 15
Gross revenue	163,288	36,751	200,039
Directly attributable cost of sales	(59,603)	(36,751)	(96,354)
Net revenue	103,685	–	103,685
Profit before income tax	10,340	–	10,340
Income tax expense	(1,253)	–	(1,253)
Profit for the year	9,087	–	9,087

(ii) 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 2019, 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 16 *Leases*, which becomes mandatory for the Group's 2020 consolidated financial statements.

AASB 16 *Leases* ('AASB 16') 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.

Based on the Group's assessment, the standard's likely impact on first-time adoption is (using exchange rates prevailing at 30 June 2019):

- there will be a material increase in lease assets and financial liabilities recognised in the statement of financial position; amounts are approximated at:
  - recognition of Finance Lease Liabilities of $21,370,000 to $23,620,000;
  - recognition of Right of Use (ROU) Assets of $15,660,000 to $17,300,000; and
  - de-recognition of lease provisions of $4,512,000.

  The difference will be adjusted against opening retained earnings resulting in a reduction in equity of $1,200,000 to $1,810,000.
- 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 depreciation of the right of use asset will be presented as depreciation rather than being included as rental costs in operating expenses; and
- 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 be included in financing activities rather than operating activities.

As at the date of this report, the Group has not early adopted the above-named standard.

1. Basis of preparation (continued)

(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 of intangibles, gain on sale of business assets and contingent consideration fair value loss.

2019 In thousands of AUD	Operating Brands	Total segment	Unallocated	Eliminations	Consolidated
Gross revenue	230,032	230,032	–	–	230,032
Directly attributable cost of sales	(100,497)	(100,497)	–	–	(100,497)
Net revenue	129,535	129,535	–	–	129,535
Other income	107	107	17	–	124
Operating expenses	(102,368)	(102,368)	(6,569)	–	(108,937)
Operating EBITDA	27,274	27,274	(6,552)	–	20,722
Depreciation and amortisation expenses					(3,275)
Contingent consideration fair value loss	(6,390)	(6,390)	–	–	(6,390)
Net finance costs					(686)
Profit before income tax					10,371
Income tax expense					(2,297)
Profit for the year					8,074
Goodwill	108,208	108,208	–	–	108,208
Other intangibles	2,176	2,176	–	–	2,176
Assets excluding intangibles	56,368	56,368	42,699	(7,561)	91,506
Total assets	166,752	166,752	42,699	(7,561)	201,890
Liabilities	74,500	74,500	15,589	(7,561)	82,528
Total liabilities	74,500	74,500	15,589	(7,561)	82,528
Amortisation of intangibles	1,066	1,066	–	–	1,066
Depreciation	1,379	1,379	830	–	2,209
Capital expenditure	1,380	1,380	320	–	1,700

2018 In thousands of AUD	Operating Brands	Total segment	Unallocated	Eliminations	Consolidated
Gross revenue	163,288	163,288	–	–	163,288
Directly attributable cost of sales	(59,603)	(59,603)	–	–	(59,603)
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.

2. Operating segments (continued)

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	Australia	UK and Europe	USA	Support Office	Unallocated intangibles(i)	Total
2019						
Net Revenue	59,975	38,611	30,949	–	–	129,535
Operating EBITDA	10,695	6,512	10,067	(6,552)	–	20,722
Operating EBITDA margin	17.8%	16.8%	32.5%	–	–	16.0%
Non-current assets	6,220	1,169	1,144	–	110,384	118,917

(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.

In thousands of AUD	Australia	UK and Europe	USA	Support Office	Unallocated intangibles(i)	Total
2018						
Net Revenue	48,154	35,134	20,397	–	–	129,535
Operating EBITDA	8,916	6,898	3,542	(5,843)	–	20,722
Operating EBITDA margin	18.5%	19.7%	17.2%	–	–	13.0%
Non-current assets	5,943	1,286	956	–	110,056	118,250

(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.

Major Customer

Net revenue from a customer of the Operating Brands segment represented approximately 11.6% of the Group's total net revenue for the year ended 30 June 2019 (2018: 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	2019	2018
Gross revenue from the rendering of services	230,032	163,288
Directly attributable cost of sales	(100,497)	(59,603)
Net revenue	129,535	103,685

Disaggregation of revenue

In the following table, net revenue is disaggregated by primary geographical markets, which reconciles to the net revenue of the Group's Operating Brands segment (see Note 2). No further disaggregation is required as substantially all revenue is recognised over time and all revenue is generated from fee for services.

In thousands of AUD	2019	2018
Australia	59,975	48,154
UK and Europe	38,611	35,134
USA	30,949	20,397
Total Operating Brands segment	129,535	103,685

Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

In thousands of AUD	Note	2019	2018
Trade receivables	7	34,081	27,183
Contract assets – Work in progress	8	2,475	1,545
Contract liabilities – Unearned revenue	11	(12,767)	(12,446)
		23,789	16,282

Contract Assets:

The contract assets relate to the Group's work in progress for accrued revenue recognised upon satisfaction of performance obligations and rechargeable disbursements at the period end which are not invoiced. The contract assets are transferred to receivables upon invoicing to the customer.

Contract Liabilities:

The contract liabilities relate to the Group's unearned revenue for consideration received from customers prior to satisfaction of performance obligations of the contract.

Given the short-term nature of customer contracts in the Group, it is expected that both contract assets will be recovered and contract liabilities utilised within the next 12 months from the reporting date. This applies for both the current year and the prior year.

Accounting policy

The Group provides marketing and communication services to a broad range of customers across three key geographic locations – Australia, UK and USA. The Group is a fee for service business where each operating business generates revenue from time spent on a particular project or delivering to agreed outcomes. The Group's customer contracts are generally short-term and may be cancelled with notice periods in accordance with respective contracts.

AASB 15 *Revenue from Contracts with Customers* 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. Principally, revenue is recognised depicting the transfer of promised services to customers with amounts reflecting consideration to which the Group expects to be entitled in exchange for those services at any point in time.

The Group's customers typically receive the benefit of services as they are performed and substantially all customer contracts provide that the Group will be compensated for services performed to date. Accordingly, substantially all revenue is recognised over time as the services are performed. For fixed fee projects, key estimates and judgements for when revenue is recognised is using inputs or outputs (time and deliverables) measuring progress on the project. For retainer contracts, where a fixed fee is paid to provide a series of distinct performance obligations that are substantially the same, key estimates and judgements for when revenue is recognised use a time-based measure resulting in a straight-line revenue recognition. For customer contracts that include any variable consideration, such as performance incentives, revenue is estimated at the beginning of the contract based on the most likely outcome and recognised accordingly.

The Group incurs a number of third party out-of-pocket costs in connection with services provided to customers.

3. Revenue (continued)

The disclosure of such revenue as either gross revenue or net revenue is dependent on whether the Group is primarily responsible for and controls the specific goods or services before they are ultimately transferred to the customer under the contract. In cases where the Group is primarily responsible for and controls those goods or services before they are passed on to the customer, the Group is determined to be a in a principal relationship and revenue is recognised on a gross basis (to gross revenue) with a corresponding amount in directly attributable cost of sales representing the third party out-of-pocket costs. Alternatively, under the revenue agency relationship, revenue is recognised on a net basis.

4. Finance costs

In thousands of AUD	2019	2018
Interest and finance costs	36	57
Finance lease interest	71	152
Present value interest	1,153	628
Finance costs	1,260	837

Foreign exchange gain of $141,000 (2018: loss of $82,000) 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	2019	2018
Current tax expense		
Current year	3,194	1,842
Adjustments for prior years	(237)	(4)
	2,957	1,838
Deferred tax expense		
Origination and reversal of temporary differences	(660)	(585)
	(660)	(585)
Income tax expense in income statement	2,297	1,253
Numerical reconciliation between tax expense and pre-tax accounting profit		
Profit for the year	8,074	9,087
Income tax expense	2,297	1,253
Profit excluding income tax	10,371	10,340
Income tax expense using the Company's domestic tax rate of 30% (2018: 30%)	3,111	3,102
Increase in income tax expense due to:		
Share-based payment expense	219	155
Tax losses not brought to account	4	7
Unwind of present value interest	346	188
Contingent consideration fair value loss	1,917	–
Decrease in income tax expense due to:		
Effect of losses not previously recognised	(2,264)	(2,322)
Effect of lower tax rate on overseas incomes	(781)	(98)
Over-provision for tax in previous years	(237)	(4)
Other (subtraction)/non-deductible items	(18)	225
Income tax expense on pre-tax net profit	2,297	1,253

Current taxes

The Group has a net current tax payable of $453,000 (2018: $1,138,000). The net current tax payable is comprised of current tax payables of $507,000 (2018: $1,138,000) and current tax receivables of $54,000 (2018: $nil).

Deferred taxes

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

In thousands of AUD	2019	2018
Deferred tax assets		
Tax losses carried forward	3,653	3,837
Employee benefits	1,169	1,065
Accruals and income in advance	601	407
Lease incentive	1,155	976
Plant and equipment	47	70
Others	104	64
Gross deferred tax assets	6,729	6,419
Deferred tax liabilities		
Fair value gain	3,653	3,837
Identifiable intangibles	485	751
Plant and equipment	88	34
Work in progress	44	62
Gross deferred tax liabilities	4,270	4,684
Net deferred tax asset	2,459	1,735

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	2019	2018
Revenue losses	15,184	22,409
Capital losses	207,513	249,434
Gross tax losses carried forward	222,697	271,843

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 a deferred tax liability of $3,653,000 arising from the recognition of contingent consideration fair value gains in 2011 resulting in a potential future taxable capital gain. A deferred tax asset of $3,653,000 has been recognised on tax capital losses in the same jurisdiction arising from disposed subsidiaries.

6. Cash and cash equivalents

In thousands of AUD	2019	2018
Cash at bank and on hand	24,610	16,660
Bank short-term deposits	19,221	17,719
Cash and cash equivalents in the statement of financial position and the statement of cash flows	43,831	34,379

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 amounting to $2,057,000 for indemnity guarantee facilities (see Note 17 Loans and borrowings). The remaining bank short-term deposits are unrestricted.

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:

In thousands of AUD	2019	2018
Cash assets	43,831	34,379
(ii) Reconciliation of profit after income tax to net cash provided by operating activities		
Profit after income tax	8,074	9,087
Add/(less) non-cash items:		
Profit on sale of non-current assets	(19)	(6)
Share-based payments expense	730	516
Depreciation	2,209	2,548
Amortisation of identifiable intangibles	1,066	667
Gain on sale of business asset	–	(627)
Contingent consideration fair value loss	6,390	–
Contingent consideration present value interest	1,153	628
(Decrease)/increase in income taxes payable (net)	(685)	320
Increase in deferred tax (net)	(724)	(590)
Net cash provided by operating activities before changes in assets and liabilities	18,194	12,543
Changes in assets and liabilities adjusted for the effects of purchase and disposal of controlled entities during the financial year:		
Increase in trade and other receivables	(6,593)	(3,931)
Increase in work in progress	(930)	(51)
(Increase)/decrease in prepayments	(205)	416
Increase in other assets	(51)	(3)
Increase in payables and accruals	6,283	53
Increase in unearned income	321	2,585
Increase in provisions	557	2,111
Increase in employee benefits	559	497
Net cash from operating activities	18,135	14,220

7. Trade and other receivables

In thousands of AUD	Note	2019	2018
Current			
Trade receivables		34,081	27,183
Less: provision for impairment loss	18	(329)	(100)
		33,752	27,083
Other receivables		39	114
Total trade and other receivables		33,791	27,197

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	2019	2018
Current		
Work in progress	2,475	1,545
Prepayments	2,818	2,613
Other current assets	4	15
	5,297	4,173
Non-current		
Deposits	197	136
	197	136

9. Plant and equipment

In thousands of AUD	Computer equipment	Office furniture and equipment	Plant and equipment	Leasehold improvements (i)	Total
2019					
Cost	4,722	2,296	338	7,068	14,424
Accumulated depreciation	(3,133)	(1,446)	(313)	(3,655)	(8,547)
Net carrying amount	1,589	850	25	3,413	5,877
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	1,444	854	45	3,980	6,323
Additions	1,035	314	–	351	1,700
Depreciation	(915)	(328)	(19)	(947)	(2,209)
Effect of movements in exchange rates	25	13	–	29	67
Disposals	–	(3)	(1)	–	(4)
Carrying amount at the end of the year	1,589	850	25	3,413	5,877

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

(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.

(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	Contracts and customer relationships	Internally generated intangible assets	Total
2019				
Cost	296,110	4,296	–	300,406
Accumulated amortisation	–	(2,120)	–	(2,120)
Impairment	(187,902)	–	–	(187,902)
Net carrying amount	108,208	2,176	–	110,384
Reconciliations of the carrying amounts of intangibles are set out below:				
Carrying amount at the beginning of the year	106,858	3,198	–	110,056
Amortisation	–	(1,066)	–	(1,066)
Effect of movements in exchange rates	1,350	44	–	1,394
Carrying amount at the end of the year	108,208	2,176	–	110,384

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

Amortisation charge

The amortisation charge of $1,066,000 (2018: $667,000) 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 $108,208,000 (2018: $106,858,000) relates to the Operating Brands CGU group.

The increase in the goodwill carrying value as compared to the prior reporting period is due to increase in Australian dollar translation of foreign currency denominated goodwill (2018: acquisition of Orchard Marketing. Refer to Note 21 Acquisition for details).

10. Intangible assets (continued)

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.

Customer contracts and relationships are amortised over a four-year period.

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	2019	2018
Current liabilities		
Trade payables	14,267	10,931
Other payables and accrued expenses	11,346	8,463
Unearned revenue	12,767	12,446
	38,380	31,840

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	2019	2018
Current		
Contingent consideration payable	11,519	–
Non-current		
Contingent consideration payable	22,282	25,802
Reconciliations of the carrying amounts of contingent consideration are set out below:		
Carrying amount at the beginning of the year	25,802	10,143
Recognised in business combination	–	19,362
Re-assessment of contingent consideration	6,390	–
Unwind of present value interest	1,153	628
Effect of movements in exchange rates	456	161
Contingent consideration paid	–	(4,492)
Carrying amount at the end of the year	33,801	25,802

During the current year, the Group recognised a fair value loss of $6,390,000 (2018: $Nil) relating to revaluation of future contingent consideration payable to the vendors of Eastwick Communications.

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. A sensitivity analysis for Contingent consideration payables is disclosed in Note 18 Financial risk management/financial instruments.

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 prior financial year.

13. Employee benefits

In thousands of AUD	2019	2018
Aggregate liability for employee benefits, including on-costs		
Current		
Employee benefits provision	4,173	3,545
Non-current		
Employee benefits provision	659	728

The Group has recognised $2,405,000 (2018: $2,476,000) 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.

13. Employee benefits (continued)

(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
2019				
Current	10	633	3	646
Non-current	454	3,155	260	3,869
Total provisions current and non-current	464	3,788	263	4,515
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	438	3,250	270	3,958
Increase due to new provision	39	617	9	665
Effect of movement in exchange rates	7	2	13	22
Released/used during the year	(20)	(81)	(29)	(130)
Carrying amount at the end of the year	464	3,788	263	4,515
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

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	2019	2018
Share capital		
Ordinary shares, fully paid	97,412	96,656

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

Movement in ordinary shares

	2019 Shares	2019 In thousands of AUD	2018 Shares	2018 In thousands of AUD
Balance at beginning of year	85,604,954	96,656	85,604,954	96,389
651,575 shares (2018: 297,184 shares) transferred from a trust account held by the Company to the employees of the Group on exercise of Share Appreciation Rights(i)	–	756	–	267
Balance at end of year	85,604,954	97,412	85,604,954	96,656

(i) As at 30 June 2019, a total of 642,726 shares (30 June 2018: 1,294,301 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 of $1.16 (2018: $0.90).

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 2019			
Fully franked final dividend – 2018	2.5	2,140	8 October 2018
Fully franked interim dividend – 2019	2.5	2,140	18 March 2019
Subsequent to the balance sheet date, at the date of this report			
Fully franked final dividend – 2019	3.0	2,568	8 October 2019
During the year ended 30 June 2018			
Fully franked interim dividend – 2018	1.5	1,284	15 March 2018

Dividend franking account

In thousands of AUD	2019	2018
Franking credits available for future years at 30% to shareholders of Enero Group Limited	18,286	20,129

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.

15. Capital and reserves (continued)

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	2019	2018
Profit for the year	8,074	9,087
Non-controlling interests	(2,413)	(614)
Profit for the year attributable to equity holders of the parent	5,661	8,473

Weighted average number of ordinary shares

In thousands of shares	2019	2018
Weighted average number of ordinary shares – basic	84,819	84,243
Shares issuable under equity-based compensation plans	710	519
Weighted average number of ordinary shares – diluted	85,529	84,762

Earnings per share

In AUD cents	2019	2018
Basic	6.7	10.1
Diluted	6.6	10.0

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	2019	2018
Current liabilities		
Hire purchase lease liabilities	493	1,423
Non-current liabilities		
Hire purchase lease liabilities	–	493

Reconciliations of the carrying amounts of hire purchase liabilities are set out below:		
Carrying amount at the beginning of the year	1,916	3,267
Repayments	(1,423)	(1,351)
Carrying amount at the end of the year	493	1,916

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
2019				
Total facilities available	493	3,489	1,972	5,954
Facilities utilised at reporting date	493	2,057	317	2,867
Facilities not utilised at reporting date	–	1,432	1,655	3,087
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

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	2019	2018
Finance lease and hire purchase payable commitments		
Finance lease commitments are payable:		
Within one year	498	1,494
One year or later and no later than five years	–	498
	498	1,992
Less: Future lease finance charges	(5)	(76)
	493	1,916
Finance lease and hire purchase liabilities provided for in the financial statements		
Current	493	1,423
Non-current	–	493
	493	1,916

The Group leases plant, equipment and leasehold improvements under finance leases expiring from one to five years (2018: 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 $2,057,000 (2018: $1,569,000) 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.

<u>Accounting policy</u>

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 2019, the Group entered into transactions with more than 600 unique customers. The 10 largest customers accounted for 35% of net revenue for the year ended 30 June 2019, with no one customer accounting for more than 12% 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	2019	2018
Cash and cash equivalents	6	43,831	34,379
Trade and other receivables	7	33,791	27,197
Work in progress	8	2,475	1,545
Deposits	8	197	136
		80,294	63,257

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

		Carrying amount	
In thousands of AUD	Note	2019	2018
Trade receivables	7	33,752	27,083

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	2019	2018
Balance at 1 July	100	135
Impairment loss recognised in:		
– income statement	259	52
– opening retained earnings (refer Note 1(g) for details)	190	–
Provision used during year	(220)	(87)
Balance at 30 June	329	100

Impairment recognised to opening retained earnings at 1 July 2018 was determined with reference to the average credit loss over the last three financial years. The average credit loss was 0.7% of trade receivables. Applying this percentage against the trade receivable balance at 1 July 2018 of $27,083,000, an additional $190,000 impairment was required on transition.

The average credit loss was re-calculated at 30 June 2019 and determined to be consistent with 1 July 2018 and therefore no adjustment to expected credit losses was required.

Impairment losses

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

In thousands of AUD	2019	2018
Not past due	27,920	23,347
Past due and less than 90 days	5,202	3,424
Past due and more than 90 days	820	312
Past due, more than 90 days and impaired	139	100
Gross trade receivables	34,081	27,183
Less: Impairment(i)	(329)	(100)
Net trade receivables	33,752	27,083

(i) Impairment includes trade receivables specifically impaired of $139,000 plus expected credit losses of $190,000.

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.

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 its net revenue and 61% of its Operating EBITDA during the year ended 30 June 2019 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's currency risk exposure is limited predominantly to consolidated Australian dollar 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.

2019 **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	493	498	498	–	–
Trade and other payables (excluding unearned revenue)	25,613	25,613	25,613	–	–
Contingent consideration payable	33,801	35,620	11,696	23,924	–
	59,907	61,731	37,807	23,924	–

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	–

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 2019.

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.

18. Financial risk management/financial instruments (continued)

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	2019 Carrying amount	2019 Fair value	2018 Carrying amount	2018 Fair value
Cash at bank and on hand	24,610	24,610	16,660	16,660
Bank short-term deposits	19,221	19,221	17,719	17,719
Trade receivables	33,752	33,752	27,083	27,083
Work in progress	2,475	2,475	1,545	1,545
Trade and other payables	(25,613)	(25,613)	(19,394)	(19,394)
Contingent consideration payable	(33,801)	(33,801)	(25,802)	(25,802)
Hire purchase lease liabilities	(493)	(493)	(1,916)	(1,916)
	20,151	20,151	15,895	15,895

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	2019	2018
Carrying amount at the beginning of the year	25,802	10,143
Recognised in business combination	–	19,362
Re-assessment of contingent consideration	6,390	–
Unwind of present value interest	1,153	628
Effect of movements in exchange rates	456	161
Contingent consideration paid	–	(4,492)
Carrying amount at the end of the year	33,801	25,802

Sensitivity analysis

Reasonably possible changes at 30 June 2019 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)	1,228	(1,228)
Average EBIT (10% movement)	2,456	(5,797)
Risk-adjusted discount rate (0.5% movement)	(362)	362

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 and step changes in EBIT multiples based on Average EBIT achieved over the whole contingent consideration period (usually three or four years).

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) Trade and other receivables

Trade and other 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.

Trade and other receivables are recognised initially at fair value, plus any directly attributable transaction costs.

Subsequent to initial recognition, trade and other receivables are measured at amortised cost using the effective interest method, less a loss allowance equal to the expected credit loss determined under the expected credit loss assessment for receivables.

(ii) Work in progress

Work in progress represents accrued revenue recognised upon satisfaction of performance obligations and rechargeable disbursements at the period end which are not invoiced, 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, 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.

18. Financial risk management/financial instruments (continued)

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 on a monthly basis 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.

Expected credit loss assessment for receivables and contract assets

In addition to identifying impairment for specific financial assets, at each reporting date the Group also predicts the expected credit loss based on actual credit loss experience of the past three years. Expected credit losses are recognised in the income statement and reflected in an allowance account against receivables. 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.

Key estimates

Trade receivables are carried at amortised cost less impairment. The impairment of these receivables is an estimate based on:

- evidence suggesting that an event has occurred leading to a negative effect on the estimated future cash inflow; and
- prediction of expected credit loss based on actual credit loss experience of the past three years.

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 2018: 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 2018: 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 group

In thousands of AUD	2019	2018
Post-tax discount rate %	8.75 – 10.59	10.41 – 11.50
Pre-tax discount rate %	10.63 – 13.98	12.96 – 16.09
Long-term perpetuity growth rate %	2.50	2.50

Sensitivity range for impairment testing assumptions

As at 30 June 2019, management has identified that for the carrying amount to exceed the recoverable amount the discount rate would need to increase by 1.1% to 2.9% depending on the currency. A nil growth rate in the cash flows of the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

20. Controlled entities

Particulars in relation to controlled entities:

Name	Group interest 2019 %	Group interest 2018 %	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
Hotwire Integrated Communications 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	100	Australia
Alfie Agency Pty Ltd	100	100	Australia
CPR Communications and Public Relations Pty Limited	100	100	Australia
Love Pty Limited	100	100	Australia
Domain Active Holdco Pty Limited	100	100	Australia
— Domain Active Pty Limited	100	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
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(i)	–	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	100	USA
Hotwire Public Relations Group LLC	100	100	USA
Hotwire New Zealand Limited	100	100	New Zealand
Enero Group NZ Ltd	100	100	New Zealand

(i) Deregistered in 2019

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

2019

There were no acquisitions in 2019.

2018

On 2 February 2018, the Group acquired 100% of the issued capital of Orchard Marketing Pty Limited, a creative and technology agency with offices in Sydney and New York, with over 70 employees. The purchase price was an upfront cash payment of $5 million in addition to contingent consideration payments tied to EBIT targets through to the period 30 June 2021. Future payments are subject to the achievement of EBIT thresholds with a total purchase price cap of $27 million based on the average EBIT of the preceding four years. The fair value of the future contingent consideration liability is estimated based on the achievement of EBIT targets.

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

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

Effect of acquisition for the year ended 30 June 2018 on the Group's assets and liabilities.

The fair 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

22. Disposal

2019

There were no disposals in 2019.

2018

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 2019, the parent Company of the Group was Enero Group Limited.

		The Company
In thousands of AUD	2019	2018
Result of the parent entity		
(Loss)/profit for the year	(2,100)	14,076
Other comprehensive income	–	–
Total comprehensive income for the year	(2,100)	14,076
Financial position of the parent entity at year end		
Current assets	27,061	23,981
Total assets	152,513	149,913
Current liabilities	24,629	10,867
Total liabilities	46,108	37,858
Net assets	106,405	112,055
Total equity of the parent entity comprising:		
Share capital	97,412	96,656
Share-based payment reserve	12,080	12,106
Profit appropriation reserve	20,955	25,235
Accumulated losses	(24,042)	(21,942)
Total equity	106,405	112,055

(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 2019.

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 2019, is set out as follows:

Summarised income statement and retained profits

In thousands of AUD	2019	2018
Net revenue	25,746	26,435
Dividends received from subsidiaries	–	13,071
Employee expenses	(22,704)	(22,885)
Operating and other expenses	(4,563)	(4,176)
(Loss)/Profit before tax	(1,521)	12,445
Income tax benefit	3,071	1,622
Profit after tax	1,550	14,067
Attributable to:		
Equity holders of the Company	1,550	14,067
Accumulated losses		
Accumulated losses at beginning of year	(32,053)	(32,044)
Profit for the year	1,550	14,067
Transfer to profit appropriation reserve	–	(14,076)
Accumulated losses at end of year	(30,503)	(32,053)
Profit appropriation reserve		
Profit appropriation reserve at beginning of year	25,235	12,443
Dividend paid during the year	(4,280)	(1,284)
Profit for the year	–	14,076
Profit appropriation reserve at end of year	20,955	25,235

Statement of financial position

In thousands of AUD	2019	2018
Assets		
Cash and cash equivalents	24,565	22,526
Trade and other receivables	6,154	6,624
Other assets	1,004	960
Total current assets	31,723	30,110
Receivables	53,620	56,048
Other financial assets	30,558	30,557
Deferred tax assets	2,124	1,865
Plant and equipment	3,619	3,887
Intangible assets	16,387	16,387
Total non-current assets	106,308	108,744
Total assets	138,031	138,854
Liabilities		
Trade and other payables	11,036	10,008
Contingent consideration payable	5,934	–
Interest-bearing loans and borrowings	493	1,422
Employee benefits	1,874	1,793
Provisions	640	–
Total current liabilities	19,977	13,223
Contingent consideration payable	14,718	19,735
Interest-bearing loans and borrowings	–	493
Employee benefits	352	415
Provisions	3,040	3,044
Total non-current liabilities	18,110	23,687
Total liabilities	38,087	36,910
Net assets	99,944	101,944
Equity		
Issued capital	97,412	96,656
Share-based payment reserve	12,080	12,106
Profit appropriation reserve	20,955	25,235
Accumulated losses	(30,503)	(32,053)
Total equity	99,944	101,944

25. Commitments

Operating leases

Leases as lessee

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

In thousands of AUD	2019	2018
Less than one year	6,440	5,353
Between one and five years	17,461	21,244
Over five years	–	1,586
	23,901	28,183

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 2019, $5,575,000 (2018: $5,514,000) 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 2019.

27. Subsequent events

Subsequent to the balance date, the Directors have declared a final dividend, with respect to ordinary shares, of 3.0 cents per share, fully franked. The final dividend will have a record date of 23 September 2019 and a payment date of 8 October 2019. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2019 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	Chief Financial Officer
Fiona Chilcott	Chief People and Culture Officer

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	2019	2018
Short-term employee benefits	2,905,132	2,552,846
Other long-term benefits	22,587	27,069
Post-employment benefits	77,719	100,106
Share-based payments – Share Appreciation Rights	538,741	279,992
Total share-based payments	538,741	279,992
Total Key Management Personnel compensation	3,544,179	2,960,013

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 the current and prior financial years; which remain outstanding at 30 June 2019.

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	19 October 2017	18 October 2018	28 June 2019[(i)]
SARs issued	5,000,000	4,500,000	2,000,000
Participants	CEO and Senior Executives	CEO and Senior Executives	CEO
VWAP for the 20 business days prior to the grant (B)	$1.04	$1.23	n/a
Vesting dates: 20 business days after the release of the Group financial report for the year ended:			
Tranche 1	30 June 2018 – 1/3rd	30 June 2019 – 1/3rd	30 June 2020 – 1/3rd
Tranche 2	30 June 2019 – 1/3rd	30 June 2020 – 1/3rd	30 June 2021 – 1/3rd
Tranche 3	30 June 2020 – 1/3rd	30 June 2021 – 1/3rd	30 June 2022 – 1/3rd
Last expiry date	30 September 2020	30 September 2021	30 September 2022
Outstanding SARs as at 30 June 2019	2,700,002	4,500,000	2,000,000

(i) Grant is in relation to SARs provided to the CEO which were issued on 28 June 2019, subject to shareholder approval. Upon shareholder approval, the VWAP for the 20 business days prior to the grant date will be confirmed.

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	Number of Rights at year end vested	Proceeds received	Date issued	Number of shares issued	Expected life (years)
2019														
16 June 2015	30 Sep 2018	$0.70	–	333,334	–	333,334	–	–	–	–	–	–	132,184	1.3–3.3
20 Oct 2015	30 Sep 2018	$0.70	–	1,066,664	–	983,330	–	83,334	–	–	–	–	519,391	0.9–2.9
19 Oct 2017	30 Sep 2020	$1.04	–	5,000,000	–	1,666,664	–	633,334	2,700,002	–	–	–	–	0.9–2.9
18 Oct 2018	30 Sep 2021	$1.23	–	–	4,500,000	–	–	–	4,500,000	–	–	–	–	0.9–2.9
28 Jun 2019(i)	30 Sep 2022	n/a	–	–	2,000,000	–	–	–	2,000,000	–	–	–	–	1.3–3.3
				6,399,998	6,500,000	2,983,328	–	716,668	9,200,002	–	–		651,575	

(i) Grant is in relation to SARs provided to the CEO, which were issued on 28 June 2019, subject to shareholder approval.

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	Number of Rights at year end 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	

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

	VWAP (for the 20 business days prior to the grant) 2019 $	Weighted average exercise price 2019	Number of options/rights 2019	VWAP (for the 20 business days prior to the grant) 2018 $	Weighted average exercise price 2018	Number of options/rights 2018
Outstanding at 1 July	0.97	–	6,399,998	0.70	–	2,799,999
Forfeited during the period	1.00	–	(716,668)	–	–	–
Expired during the period	–	–	–	–	–	–
Exercised during the period	0.89	–	(2,983,328)	0.70	–	(1,400,001)
Granted during the period	1.23	–	6,500,000	1.04	–	5,000,000
Outstanding at 30 June	1.16	–	9,200,002	0.97	–	6,399,998
Exercisable at 30 June	–	–	–	–	–	–

Excluding the SARs provided to the CEO issued on 28 June 2019, which are subject to shareholder approval, the SARs outstanding at 30 June 2019 have a VWAP (for the 20 business days prior to the grant) range of $1.04 to $1.23 (30 June 2018: $0.70 to $1.04).

The SARs outstanding at 30 June 2019 have a weighted average contractual life of 1.32 years (30 June 2018: 1.03 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 2019 for share-based payment transactions were $730,000 (2018: $516,000).

The VWAP for the 20 business days prior the date of exercise of SARs on 13 September 2018 was $1.16.

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)
19 Oct 2017(i)	30 Sept 2020	0.12 – 0.23	1.04	0.98	40	1.78–2.08	0.0	0.9–2.9
18 Oct 2018(ii)	30 Sept 2021	0.20 – 0.31	1.23	1.23	40	1.99–2.07	2.0	0.9–2.9
28 Jun 2019(iii)	30 Sept 2022	n/a	n/a	n/a	n/a	n/a	n/a	1.3–3.3

(i) 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.

(ii) Grant is in relation to SARs provided to senior employees of the Group which were issued on 18 October 2018. 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 2021, which is estimated to be around 30 September 2021.

(iii) Grant is in relation to SARs provided to the CEO which were issued on 28 June 2019, subject to shareholder approval. 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 2022, which is estimated to be around 30 September 2022. Upon shareholder approval, the VWAP for the 20 business days prior to the grant date and fair value per right at grant date will be confirmed.

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	2019	2018
Audit services – auditors of the Company		
KPMG Australia	315,000	304,000
Overseas KPMG firm	141,000	132,000
	456,000	436,000
Other services – auditors of the Company		
Taxation compliance services:		
KPMG Australia	–	8,000
Overseas KPMG firm	186,000	181,000
	186,000	189,000

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 2019 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 2019 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 2019.

Signed in accordance with a resolution of the Directors:

John Porter

Chairman

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ENERO GROUP LIMITED

KPMG

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 2019 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 2019;
- 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:

- Revenue recognition;
- Annual impairment testing of goodwill and intangible assets; and
- Fair value of contingent consideration.

Key Audit Matters are those matters that, in our professional judgement, 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 ($230.0 million)

Refer to Note 3 to the financial report

The key audit matter	How the matter was addressed in our audit
The recognition of revenue is a key audit matter due to the: • Significance of revenue to the financial statements. • Group's policy to recognise revenue over time based on a measure of progress estimations for each specific contract. These estimations are based on the relative value of services completed (work in progress) to the total expected contracted value of the service for each specific contract. This is a manual process, increasing the risk of error and additional audit effort. On 1 January 2018, AASB 15 *Revenue from Contracts with Customers* ('AASB 15') became effective. Assessing revenue recognition, measurement and disclosures due to the adoption of AASB 15 required significant audit effort across each contract type.	Our procedures included: • We analysed the year on year revenue across the different business units to identify the higher risk areas. • We selected a sample of contracts across each contract type and significant contracts entered into during the year. We considered the relevant features of the underlying contracts in assessing the Group's application of AASB 15 revenue recognition, including what the Group identified as performance obligations, against the criteria in the accounting standard and those in the Group's policy. • For the significant contract sample selected above, open at period end, we then assessed the amount of revenue recognised and work in progress by: - Checking the work in progress to signed customer approvals for the services performed and internal time costs incurred. - Recalculating the measure of progress, considering the contract terms and work in progress. • We selected a statistical sample of over-time revenue recognised and performed the following procedures: - For services completed, we compared details to customer invoices issued,

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	customer estimate approvals, and subsequent cash receipt. - We checked revenue recognised by comparing the total revenue of the expected contracted value of the service to signed customer contracts, and applying the estimated measure of progress to the expected contract value. - We challenged the Group's estimate of measure of progress through interviews with the business unit project managers. • We assessed the additional disclosures relating to the adoption of AASB 15 against the requirements of the accounting standard and evidence obtained from our procedures above.

Annual impairment testing of goodwill and intangible assets ($110.4 million)

Refer to Note 10 to the financial report

The key audit matter	How the matter was addressed in our audit
The Group's annual testing of goodwill and intangible assets for impairment is a key audit matter, given the size of the balance (being 55% of total assets). We focused on the significant forward-looking assumptions the Group applied in their value in use model, including: • Forecast operating cash flows – there is uncertainty around future cash flows due to the short term, non-recurring nature of customer contracts. This increases the risk of inaccurate forecasts or a wider range of possible outcomes for us to consider. • Forecast growth rates and terminal growth rates – in addition to the uncertainties described above, the Group's model is sensitive to small changes in these assumptions, reducing available headroom. This drives additional audit effort specific to their feasibility and consistency of application to the Group's strategy. • Discount rates – these are complicated in nature and vary according to the conditions and environment the specific Cash	Our procedures included: • We considered the appropriateness of the value in use method applied by the Group to perform the annual test of goodwill for impairment against the requirements of the accounting standards. • We assessed the integrity of the value in use model used, including the accuracy of underlying calculation formulas. • We assessed the accuracy of previous Group cash flow forecasts to inform our evaluation of forecasts incorporated in the value in use model. • We challenged the Group's significant forecast operating cash flow and growth assumptions. We compared key events to the Board approved plan and strategy. We used our knowledge of the Group, their past performance, business and customers, and our industry experience. We compared forecast growth rates and terminal growth rates to published studies of industry trends and expectations within each relevant

Generating Unit (CGU) is subject to from time to time. The Group's modelling is sensitive to small changes in the discount rate. We involve our valuations specialists and senior team members with the assessment. The Group uses a complex model to perform their annual testing of goodwill for impairment. The model is largely manually developed, and uses adjusted historical performance and a range of internal and external sources as inputs to the assumptions. Complex modelling using forward-looking assumptions tend to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application.	geographical region. • We inquired with management of operations across the Group about expected future performance of the business. • We compared the base forecast cash flows to current year actual results or Board approved budget, as appropriate. • We checked the consistency of the growth rates to the Group's latest forecasts approved by the Board, past performance of the Group, and growth rates achieved in the industry in which they operate. • Working with our valuation specialists, we independently developed a discount rate range considered comparable using publicly available market data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in. • We performed sensitivity analysis by varying key assumptions, such as forecast growth rates, terminal growth rates and discount rates, within a reasonably possible range, to identify those assumptions at a higher risk of bias or inconsistency in application. • We assessed the disclosures in the financial report using our understanding of the matter obtained from our testing and against the requirements of the accounting standards.

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Fair value of contingent consideration ($33.8 million)	
Refer to Note 12 to the financial report	
The key audit matter	**How the matter was addressed in our audit**
Contingent consideration payable by the Group is initially recognised at fair value in connection with a business combination, and subsequently assessed at each period end. The Group has two contingent consideration amounts payable relating to the acquisition of Eastwick Communications and Orchard Marketing. There is uncertainty around the actual contingent consideration payments that will be made by the Group, as it is subject to the performance of Orchard Marketing and Eastwick Communications subsequent to the reporting date and due to the short term, non-recurring nature of customer contracts in the contingent period. The fair value of contingent consideration is a key audit matter due to the judgement required by us in assessing the feasibility of forward looking assumptions in relation to the expected performance of Orchard Marketing and Eastwick Communications. We focused on EBIT forecasts of Orchard Marketing and Eastwick Communications as the key assumption the Group applied in their fair value estimate of contingent consideration.	Our procedures included: • We assessed the Group's determination of the contingent consideration against the contractual terms of the underlying sale and purchase agreement and the criteria in the accounting standards. • We checked the integrity of the Group's fair value of contingent consideration model including accuracy of the underlying calculation formula. • We assessed the accuracy of previous EBIT forecasts to inform our evaluation of forecasts incorporated in the model. • We compared the EBIT forecast to current year actual results or Board approved budget, as appropriate. • We inquired with management of Orchard Marketing and Eastwick Communications about expected future performance of the business. • We compared the EBIT forecasts for consistency to those used, and tested by us, in the impairment testing of goodwill and intangible assets key audit matter. • We tested the Group's reconciliation of carrying amounts of contingent consideration to the financial statements, including comparing payments made to bank statements. • We assessed the disclosures in the financial report, including sensitivity analysis, using our understanding obtained from our testing and against the requirements of the accounting standards.

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 and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. 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 Group and Company 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 the 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.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ENERO GROUP LIMITED

KPMG

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Enero Group Limited for the year ended 30 June 2019, 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 2019.

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 2019

LEAD AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C 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 2019 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

Caoimhe Toouli

KPMG	Caoimhe Toouli *Partner* Sydney 28 August 2019

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 2019.

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	14,898,502
Forager Funds Management	12,151,108
Perpetual Limited	11,930,554

Unquoted equity securities

As at 31 July 2019 there were no options granted over unissued ordinary shares in the Company.

Voting rights

Ordinary shares – refer to Note 15 Capital and reserves.

Distribution of equity security holders:

Range	Number of equity security holders	Ordinary shares
1 – 1,000	217	111,640
1,001 – 5,000	257	652,180
5,001 – 10,000	102	748,196
10,001 – 100,000	120	3,883,109
100,001 and over	35	80,209,829
	731	85,604,954

The number of shareholders holding less than a marketable parcel of ordinary shares is 59.

Twenty largest shareholders

Rank	Name	Units	% of issued capital
1	HSBC Custody Nominees (Australia) Limited	16,337,193	19.08
2	National Nominees Limited	14,174,604	16.56
3	J P Morgan Nominees (Australia) Limited	12,925,556	15.10
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 Ltd <ABC Investment A/C>	2,548,301	2.98
9	Irish Global Equity Limited	1,667,025	1.95
10	Mr Felice Testini <GAT Family A/C>	1,630,102	1.90
11	Citicorp Nominees Pty Limited	1,628,777	1.90
12	CS Third Nominees Pty Limited <HSBC Cust Nom AU Ltd 13 A/C>	1,534,199	1.79
13	Brispot Nominees Pty Ltd <House Head Nominee A/C>	1,291,183	1.51
14	Henawall Pty Limited	1,230,838	1.44
15	Mrs Antonia Caroline Collopy	788,637	0.92
16	Love Pty Limited <Enero Employee A/C>	642,726	0.75
17	Irish Global Equity Limited	632,629	0.74
18	UBS Nominees Pty Ltd	476,317	0.56
19	Mr George Walter Mooratoff	475,117	0.56
20	Mr Hedley Sandler & Mrs Beverley Sandler <H&B Sandler Super Fund A/C>	440,000	0.51
Total		**76,666,520**	**89.57**

CORPORATE DIRECTORY

COMPANY SECRETARY
Brendan York

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Sydney South NSW
1235 Australia
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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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