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**Enero Group Limited**

**ABN 97 091 524 515**

**Half Year Report**

**Appendix 4D**

**Half Year ended 31 December 2018**

## Results for announcement to the market

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

The current reporting period is 1 July 2018 to 31 December 2018.
The previous corresponding reporting period is 1 July 2017 to 31 December 2017.

## Key information

**In thousands of AUD**

| | 31 December 2018 | 31 December 2017 | % Change | Amount Change |
|---|---|---|---|---|
| Gross revenues from ordinary activities | 108,501 | 74,322 | 45.99% | 34,179 |
| Profit after tax attributable to members | 6,059 | 3,773 | 60.59% | 2,286 |
| Profit for the period attributable to members | 6,059 | 3,773 | 60.59% | 2,286 |

| Dividends | Amount per security | Franked amount per security | Record date | Payment date |
|---|---|---|---|---|
| Final dividend | 2.5 cents | 2.5 cents | 24 September 2018 | 8 October 2018 |
| Interim dividend | 2.5 cents | 2.5 cents | 28 February 2019 | 18 March 2019 |

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

The remainder of the information requiring disclosure to comply with listing rule 4.2A.3 is contained in the attached financial report for the half year ended 31 December 2018 and the additional information set out below.

## Additional Information

| | Current period | Previous corresponding period |
|---|---|---|
| Net tangible asset backing per ordinary share | 0.12 | 0.29 |

## Explanation of results

Please refer to the attached interim financial report for the half year ended 31 December 2018 and Market Presentation for commentary and further information with respect to the results.

# Enero Group Limited

## and its controlled entities

## ABN 97 091 524 515

## Interim Financial Report

## For the half year ended 31 December 2018

## Contents

**Enero Group Limited**

**Financial Report - half year ended 31 December 2018**

## Directors' Report

The directors of Enero Group Limited (the "Company") present their report, together with the consolidated financial statements of the Group, being the Company and its controlled entities, for the six months ended 31 December 2018 and the review report thereon.

### Directors

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

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

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

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

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

Ian Rowden – Independent Non-Executive Director
Ian was appointed as a Non-Executive Director of the Company on 21 November 2018.

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.

### 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.

### Review of operations for the six months ended 31 December 2018:

Reconciliation of Operating EBITDA to Statutory profit after tax:

| In thousands of AUD | 6 months to 31 December 2018 | 6 months to 31 December 2017 |
|---|---|---|
| Net revenue | 63,736 | 47,774 |
| Operating EBITDA | 10,024 | 5,694 |
| Depreciation and amortisation expenses | (1,513) | (1,500) |
| Net finance costs | (353) | (147) |
| Gain on sale of business asset (refer note 10) | – | 627 |
| Statutory profit before tax | 8,158 | 4,674 |
| Income tax expense | (1,109) | (653) |
| Statutory profit after tax | 7,049 | 4,021 |

## Directors' Report (continued)

### Basis of preparation

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

Operating EBITDA is calculated as profit before interest, taxes, depreciation, amortisation, impairment of intangibles, contingent consideration fair value gains/losses, gain on sale of business asset and acquisition costs. Operating EBITDA, reconciled in the table on page 2, is the primary measure used by management and the Directors in assessing the performance of the Group. It provides information on the Group's cash flow generation excluding significant transactions and non-cash items which are not representative of the Group's ongoing operations.

### Share Appreciation Rights issued

During the half year ended 31 December 2018, a total of 4,500,000 Share Appreciation Rights (31 December 2017: 5,000,000) were issued to senior employees of the group under the existing Share Appreciation Rights plan.

### Shares issued on exercise of Share Appreciation Rights

During the half year ended 31 December 2018, a total of 651,575 shares (31 December 2017: 297,184) were transferred from a trust account held by the Company to the employees of the Group on exercise of Share Appreciation Rights.

As at 31 December 2018, the Company has 642,726 shares (31 December 2017: 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.

### Dividend

Subsequent to the interim reporting date, the Directors have declared an interim dividend, with respect to ordinary shares, of 2.5 cents per share, fully franked. The interim dividend will have a record date of 28 February 2019 and a payment date of 18 March 2019.

### Subsequent Events

For events subsequent to the interim reporting date, refer to note 11 *Subsequent events*.

### Lead auditor's independence declaration

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 26 and forms part of the directors' report for the half year ended 31 December 2018.

### Rounding off

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

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

Dated at Sydney this 13th day of February 2019.

John Porter
Chairman

**Enero Group Limited**

**Financial Report - half year ended 31 December 2018**

## Consolidated interim income statement
**for the six months ended 31 December 2018**

| In thousands of AUD | Note | 2018 | 2017 Restated |
|---|---|---|---|
| Gross revenue | | 108,501 | 74,322 |
| Directly attributable costs of sales | | (44,765) | (26,548) |
| Net revenue | 3 | 63,736 | 47,774 |
| Other income | | 23 | 90 |
| Employee expenses | | (43,565) | (33,606) |
| Occupancy costs | | (3,584) | (3,207) |
| Travel expenses | | (943) | (647) |
| Communication expenses | | (1,235) | (1,016) |
| Compliance expenses | | (986) | (550) |
| Depreciation and amortisation expense | | (1,513) | (1,500) |
| Administration expenses | | (3,422) | (3,144) |
| Gain on sale of business asset | 10 | – | 627 |
| Finance income | | 285 | 111 |
| Finance costs | | (638) | (258) |
| Profit before income tax | | 8,158 | 4,674 |
| Income tax expense | 4 | (1,109) | (653) |
| Profit for the period | | 7,049 | 4,021 |
| Attributable to: | | | |
| Equity holders of the parent | | 6,059 | 3,773 |
| Non-controlling interests | | 990 | 248 |
| | | 7,049 | 4,021 |
| Earnings per share | | | |
| Basic earnings per share (AUD cents) | 5 | 7.16 | 4.48 |
| Diluted earnings per share (AUD cents) | 5 | 7.12 | 4.45 |

* 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.

## Consolidated interim statement of comprehensive income
**for the six months ended 31 December 2018**

| In thousands of AUD | Note | 2018 | 2017 Restated |
|---|---|---|---|
| Profit for the period | | 7,049 | 4,021 |
| Other comprehensive income | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Foreign currency translation differences for foreign operations | | 1,410 | 1,466 |
| Total items that may be reclassified subsequently to profit or loss | | 1,410 | 1,466 |
| Other comprehensive income for the period, net of tax | | 1,410 | 1,466 |
| Total comprehensive income for the period | | 8,459 | 5,487 |
| Attributable to: | | | |
| Equity holders of the parent | | 7,425 | 5,243 |
| Non-controlling interests | | 1,034 | 244 |
| | | 8,459 | 5,487 |

* 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.

## Enero Group Limited

## Financial Report - half year ended 31 December 2018

### Consolidated interim statement of changes in equity

**for the six months ended 31 December 2018**

| In thousands of AUD | 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 |
|---|---|---|---|---|---|---|---|---|---|
| | Attributable to owners of the Company | | | | | | | | |
| Opening balance at 1 July 2017 | 96,389 | 7,030 | 12,443 | 11,857 | (1,417) | (24,049) | 102,253 | 704 | 102,957 |
| Profit for the period | – | 3,773 | – | – | – | – | 3,773 | 248 | 4,021 |
| Other comprehensive income/(loss) for the period net of tax | – | – | – | – | – | 1,470 | 1,470 | (4) | 1,466 |
| Total comprehensive income for the period | – | 3,773 | – | – | – | 1,470 | 5,243 | 244 | 5,487 |
| Transactions with owners recorded directly in equity: | | | | | | | | | |
| Shares issued to employees on exercise of Share Appreciation Rights | 267 | – | – | (267) | – | – | – | – | – |
| Dividends paid to equity holders | – | – | – | – | – | – | – | (264) | (264) |
| Share based payment expense | – | – | – | 258 | – | – | 258 | – | 258 |
| Closing balance at 31 December 2017 | 96,656 | 10,803 | 12,443 | 11,848 | (1,417) | (22,579) | 107,754 | 684 | 108,438 |
| | | | | | | | | | |
| 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 period | – | 6,059 | – | – | – | – | 6,059 | 990 | 7,049 |
| Other comprehensive income for the period net of tax | – | – | – | – | – | 1,366 | 1,366 | 44 | 1,410 |
| Total comprehensive income for the period | – | 6,059 | – | – | – | 1,366 | 7,425 | 1,034 | 8,459 |
| Transactions with owners recorded directly in equity: | | | | | | | | | |
| Shares issued to employees on exercise of Share Appreciation Rights | 756 | – | – | (756) | – | – | – | – | – |
| Dividends paid to equity holders | – | – | (2,140) | – | – | – | (2,140) | (461) | (2,601) |
| Share based payment expense | – | – | – | 382 | – | – | 382 | – | 382 |
| Closing balance at 31 December 2018 | 97,412 | 7,353 | 23,095 | 11,732 | (1,417) | (18,401) | 119,774 | 1,405 | 121,179 |

* 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.

## Consolidated interim statement of financial position
**as at 31 December 2018**

| In thousands of AUD | Note | 31-Dec-2018 | 30-Jun-2018 Restated |
|---|---|---|---|
| Assets | | | |
| Cash and cash equivalents | | 38,419 | 34,379 |
| Trade and other receivables | | 36,645 | 27,197 |
| Other assets | | 4,426 | 4,173 |
| Total current assets | | 79,490 | 65,749 |
| Deferred tax assets | | 2,331 | 1,735 |
| Plant and equipment | | 6,313 | 6,323 |
| Other assets | | 189 | 136 |
| Intangible assets | 6 | 110,786 | 110,056 |
| Total non-current assets | | 119,619 | 118,250 |
| Total assets | | 199,109 | 183,999 |
| Liabilities | | | |
| Trade and other payables | | 39,888 | 31,840 |
| Contingent consideration payable | 9 | 11,268 | – |
| Interest-bearing loans and borrowings | | 1,214 | 1,423 |
| Employee benefits | | 3,371 | 3,545 |
| Income tax payable | | 1,076 | 1,138 |
| Provisions | | 43 | 267 |
| Total current liabilities | | 56,860 | 38,213 |
| Contingent consideration payable | 9 | 15,419 | 25,802 |
| Interest-bearing loans and borrowings | | – | 493 |
| Employee benefits | | 789 | 728 |
| Provisions | | 4,862 | 3,691 |
| Total non-current liabilities | | 21,070 | 30,714 |
| Total liabilities | | 77,930 | 68,927 |
| Net assets | | 121,179 | 115,072 |
| Equity | | | |
| Issued capital | | 97,412 | 96,656 |
| Other reserves | | (8,086) | (9,078) |
| Profit appropriation reserve | | 23,095 | 25,235 |
| Retained profits | | 7,353 | 1,427 |
| Total equity attributable to equity holders of the parent | | 119,774 | 114,240 |
| Non-controlling interests | | 1,405 | 832 |
| Total equity | | 121,179 | 115,072 |

* 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 condensed notes on pages 9 to 22 are an integral part of these consolidated interim financial statements.

**Enero Group Limited**

**Financial Report - half year ended 31 December 2018**

## Consolidated interim statement of cash flows

**for the six months ended 31 December 2018**

| In thousands of AUD | Note | 2018 | 2017 Restated |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Cash receipts from customers | | 128,838 | 105,174 |
| Cash paid to suppliers and employees | | (119,345) | (93,383) |
| Cash generated from operations | | 9,493 | 11,791 |
| Interest received | | 285 | 111 |
| Income taxes paid | | (1,726) | (562) |
| Interest paid | | (59) | (110) |
| Net cash from operating activities | | 7,993 | 11,230 |
| Cash flows from investing activities | | | |
| Proceeds from disposal of non-current assets | | 24 | 1 |
| Acquisition of plant and equipment | | (917) | (348) |
| Contingent consideration paid | | – | (4,492) |
| Consideration from sale of business asset | | – | 627 |
| Net cash used in investing activities | | (893) | (4,212) |
| Cash flows from financing activities | | | |
| Finance lease payments | | (702) | (666) |
| Dividends paid to equity holders of the parent | | (2,140) | – |
| Dividends paid to non-controlling interests in controlled entities | | (461) | (264) |
| Net cash used in financing activities | | (3,303) | (930) |
| Net increase in cash and cash equivalents | | 3,797 | 6,088 |
| Effect of exchange rate fluctuations on cash held | | 243 | 263 |
| Cash and cash equivalents at 1 July | | 34,379 | 32,512 |
| Cash and cash equivalents at 31 December | | 38,419 | 38,863 |

* 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 condensed notes on pages 9 to 22 are an integral part of these consolidated interim financial statements.

**Condensed notes to the consolidated interim financial statements**
**for the six months ended 31 December 2018**

## 1. Statement of significant accounting policies

a. Reporting entity

Enero Group Limited (the "Company") is a company domiciled in Australia. The consolidated interim financial report of the Company for the six months ended 31 December 2018 comprises the Company and its subsidiaries (together referred to as the "Group").

The consolidated annual financial report of the Group as at and for the year ended 30 June 2018 is available at www.enero.com.

b. Statement of compliance

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

The consolidated interim financial report does not include all of the information required for a full annual financial report and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2018.

The consolidated interim financial report was approved by the Board of Directors on 13 February 2019.

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

c. Significant accounting policies

Except as described below, the accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated annual financial report as at and for the year ended 30 June 2018.

New standards adopted

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

- Adjustments to the recognition of Gross Revenue and Directly attributable cost of sales due to the re-assessment of the Principal versus Agency relationship (refer (i)); and
- An increase in impairment losses recognized on financial assets (refer (ii)).

(i) **AASB 15 *Revenue from Contracts with Customers***

AASB 15 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 are 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 group expects to be entitled in exchange for those services.

Effective 1 July 2018, the Group adopted AASB 15 *Revenue from Contracts with Customers* ("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.

## 1. Statement of significant accounting policies (continued)

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 interim income statement for the six months ended 31 December 2018:

| In thousands of AUD | As reported | Adjustments | Amounts without the adoption of AASB15 |
|---|---|---|---|
| Gross revenue | 108,501 | 19,329 | 127,830 |
| Directly attributable cost of sales | (44,765) | (19,329) | (64,094) |
| Net Revenue | 63,736 | – | 63,736 |
| | | | |
| Profit before income tax | 8,158 | – | 8,158 |
| Income tax expense | (1,109) | – | (1,109) |
| Profit for the period | 7,049 | – | 7,049 |

The following table summarises the impact on the consolidated interim income statement for the comparative period six months ended 31 December 2017:

| In thousands of AUD | As reported | Adjustments | Amounts without the adoption of AASB15 |
|---|---|---|---|
| Gross revenue | 74,322 | 18,698 | 93,020 |
| Directly attributable cost of sales | (26,548) | (18,698) | (45,246) |
| Net Revenue | 47,774 | – | 47,774 |
| | | | |
| Profit before income tax | 4,674 | – | 4,674 |
| Income tax expense | (653) | – | (653) |
| Profit for the period | 4,021 | – | 4,021 |

The Group has adopted a new revenue recognition accounting policy:

Revenue 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 are 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 of time.

## 1. Statement of significant accounting policies (continued)

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, revenue is recognised using input or outputs measuring progress on the project. For retainer contracts, where a fixed fee is paid to provide a series of distinct performance obligation that are substantially the same, revenue is recognised using 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 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. 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 onto the customers, 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 net basis.

(ii) **AASB 9 *Financial Instruments***

AASB 9 sets out 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 *Financial Instruments* (“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 at 1 July 2018 | (133) |

The Group has adopted a new financial instruments accounting policy:

Financial Instruments Accounting Policy

AASB 9 largely retains the existing requirements in AASB 139 for the classification and measurement of financial liabilities. However, it eliminates the previous AASB 139 categories for financial assets of held to maturity, loans and receivables and available for sale.

## 1. Statement of significant accounting policies (continued)

The adoption of AASB 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments. The adoption of AASB 9 has not had a significant effect on the Group's accounting policies related to financial assets other than impairment of financial assets.

Impairment of Financial assets (including receivables)
The new impairment model is based on an expected credit loss model and applies to financial assets measured at amortised cost, contract assets and debt instruments at Fair Value Other Comprehensive Income (FVOCI), but not to investments in equity instruments.

The financial assets at amortised cost consist of trade receivables, cash and cash equivalents and bank short-term deposits.

The Group measures loss allowances at an amount equal to lifetime expected credit losses. Expected credit losses are assessed on a monthly basis to determine whether there is any objective evidence that a financial asset is impaired.

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a detrimental impact on the estimated future cash flows of the financial asset have occurred. The impairment loss 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.

Objective evidence that financial assets are impaired can include default or delinquency by a trade receivable, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, and/or indications that a trade receivable or issuer will enter bankruptcy.

Measurement of expected future credit losses for trade receivables is determined by reference to actual credit loss experience of the previous three years. The average credit loss on trade receivables is used in addition to any specific trade receivable which has already been assessed as impaired.

Impact of the new impairment model:
The Group has determined that the application of AASB 9's impairment requirements at 1 July 2018 results in additional impairment allowances as follows:

**In thousands of AUD**

| | |
|---|---|
| **Impairment loss allowance on trade receivables** | |
| Impairment loss allowance on trade receivables as at 30 June 2018 under AASB 139 | 100 |
| Additional impairment recognised at 1 July 2018 | 190 |
| Impairment loss allowance on trade receivables as at 1 July 2018 | 290 |

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 average trade receivable balance for the last three years of $23,866,000, an additional $190,000 impairment was required on transition.

## 1. Statement of significant accounting policies (continued)

New Standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2018, and have not been applied in preparing these consolidated interim financial statements. None of these are expected to have a significant effect on the Group's financial statements, except AASB 16 *Leases*, which becomes mandatory for the Group's year ended 30 June 2020 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.

The Group continues to review of all its existing leases to quantify the impact of AASB 16. However, based on the Group's preliminary assessment, the standard's likely impact on first-time adoption is (using exchange rates prevailing at 31 December 2018):

- 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 $20,900,000 to $24,300,000;
  - recognition of Right Of Use (ROU) Assets of $15,300,000 to $17,800,000; and
  - the de-recognition of lease incentive, rent straight line and make good provisions of $4,600,000.

  The difference will be adjusted against opening retained earnings resulting in a reduction in equity of $1,000,000 to $1,900,000.
- 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 amortisation of the right of use asset will be presented as amortisation rather than being included as rental costs in operating expenses;
- operating cash outflows will be lower and financing cash outflows will be higher in the statement of cash flows as principal repayments on all lease liabilities will now be included in financing activities rather than operating activities.

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

## 1. Statement of significant accounting policies (continued)

d. Estimates

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

In preparing this report, the significant judgements made by management in applying the Group's accounting policies and the key sources of uncertainty in estimation were the same as those that applied to the consolidated annual financial report of the Group as at and for the year ended 30 June 2018, except for new judgements and key sources of estimation uncertainty related to application of AASB 15 and AASB 9 which are disclosed in note 1(c).

*Measurement of fair value*

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

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

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

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

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

Further information about the assumptions made in measuring fair values of Contingent consideration payable refer note 9.

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

## 2. Operating segments

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

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

The Operating Brands segment includes International and Australian specialised marketing and communication services, including strategy, market research, advertising, 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 transactions and non-cash 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, contingent consideration fair value gains/losses, gain on sale of business asset and acquisition costs.

### 2. Operating segments (continued)

| 2018<br>In thousands of AUD | Operating Brands | Total segment | Unallocated | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Gross revenue | 108,501 | 108,501 | _ | _ | 108,501 |
| Directly attributable cost of sales | (44,765) | (44,765) | _ | _ | (44,765) |
| Net revenue | 63,736 | 63,736 | _ | _ | 63,736 |
| Other income | 7 | 7 | 16 | _ | 23 |
| Operating expenses | (50,440) | (50,440) | (3,295) | _ | (53,735) |
| Operating EBITDA | 13,303 | 13,303 | (3,279) | _ | 10,024 |
| Depreciation and amortisation expenses | | | | | (1,513) |
| Net finance costs | | | | | (353) |
| Profit before tax | | | | | 8,158 |
| Income tax expense | | | | | (1,109) |
| Profit for the period | | | | | 7,049 |
| | | | | | |
| Goodwill | 108,076 | 108,076 | _ | _ | 108,076 |
| Other intangibles | 2,710 | 2,710 | _ | _ | 2,710 |
| Assets excluding intangibles | 51,440 | 51,440 | 37,420 | (537) | 88,323 |
| Total assets | 162,226 | 162,226 | 37,420 | (537) | 199,109 |
| Liabilities | 69,230 | 69,230 | 9,237 | (537) | 77,930 |
| Total liabilities | 69,230 | 69,230 | 9,237 | (537) | 77,930 |

* All segments are continuing operations.

| 2017 (Restated)<br>In thousands of AUD | Operating Brands | Total segment | Unallocated | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Gross revenue | 74,322 | 74,322 | _ | _ | 74,322 |
| Directly attributable cost of sales | (26,548) | (26,548) | _ | _ | (26,548) |
| Net revenue | 47,774 | 47,774 | _ | _ | 47,774 |
| Other income | 90 | 90 | _ | _ | 90 |
| Operating expenses | (39,286) | (39,286) | (2,884) | _ | (42,170) |
| Operating EBITDA | 8,578 | 8,578 | (2,884) | _ | 5,694 |
| Gain on sale of business asset | 627 | 627 | _ | _ | 627 |
| Depreciation and amortisation expenses | | | | | (1,500) |
| Net finance costs | | | | | (147) |
| Profit before tax | | | | | 4,674 |
| Income tax expense | | | | | (653) |
| Profit for the period | | | | | 4,021 |
| | | | | | |
| Goodwill | 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 |

* All segments are continuing operations.

## 3. Revenue

The Group's operations and main revenue streams are those described in its consolidated annual financial report as at and for the year ended 30 June 2018.

The nature and effect of initially applying AASB 15 on the Group's interim financial report are disclosed in Note 1(c).

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 | 2018 | 2017 |
|---|---|---|
| Primary geographical markets | | |
| Australia | 30,416 | 20,949 |
| UK and Europe | 19,214 | 17,158 |
| USA | 14,106 | 9,667 |
| Total Operating Brands segment | 63,736 | 47,774 |

## 4. Income tax expense

Recognised in the income statement

| In thousands of AUD | 2018 | 2017 |
|---|---|---|
| Current tax expense | | |
| Current year | 1,648 | 803 |
| Adjustments for prior years | (7) | 39 |
| | 1,641 | 842 |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | (532) | (189) |
| | (532) | (189) |
| Income tax expense in income statement | 1,109 | 653 |

| Numerical reconciliation between tax expense and pre-tax accounting profit | | |
|---|---|---|
| Profit for the period | 7,049 | 4,021 |
| Income tax expense | 1,109 | 653 |
| Profit before income tax | 8,158 | 4,674 |
| Income tax expense using the Company's domestic tax rate of 30% (2017: 30%) | 2,447 | 1,402 |
| Increase in income tax expense due to: | | |
| Share based payment expense | 115 | 77 |
| Non-deductible present value interest | 174 | 44 |
| Amortisation of intangibles | 94 | – |
| Tax losses not brought to account | 5 | 7 |
| Other non-deductible/(subtraction) items | 109 | (7) |
| Decrease in income tax expense due to: | | |
| Effect of lower tax rate on overseas income | (165) | (40) |
| Unwinding of deferred tax liability on business combination | (94) | – |
| (Over)/under provision for tax in prior years | (7) | 39 |
| Effect of losses previously not booked | (1,569) | (869) |
| Income tax expense on pre-tax net profit | 1,109 | 653 |

## 5. Earnings per share

| | 2018 | 2017 |
|---|---|---|
| Profit attributable to ordinary shareholders | | |
| **In thousands of AUD** | | |
| Profit for the period | 7,049 | 4,021 |
| Non-controlling interests | (990) | (248) |
| Profit for the period attributable to equity owners | 6,059 | 3,773 |
| *Weighted average number of ordinary shares* | | |
| **In thousands of shares** | | |
| Weighted average number of ordinary shares – basic | 84,679 | 84,177 |
| Shares issuable under equity-based compensation plans | 422 | 597 |
| Weighted average number of ordinary shares – diluted | 85,101 | 84,774 |
| Earnings per share | | |
| Basic (AUD cents) | 7.16 | 4.48 |
| Diluted (AUD cents) | 7.12 | 4.45 |

### 6. Intangible assets

| In thousands of AUD | Goodwill | Contracts and customer relationships | Internally generated intangible assets | Total |
|---|---|---|---|---|
| **31-Dec-2018** | | | | |
| At cost | 295,726 | 4,288 | – | 300,014 |
| Accumulated amortisation | – | (1,578) | – | (1,578) |
| Impairment | (187,650) | – | – | (187,650) |
| Net carrying amount | 108,076 | 2,710 | – | 110,786 |
| Carrying amount at 1 July 2018 | 106,858 | 3,198 | – | 110,056 |
| Amortisation | – | (530) | – | (530) |
| Effect of movements in exchange rates | 1,218 | 42 | – | 1,260 |
| Carrying amount at 31 December 2018 | 108,076 | 2,710 | – | 110,786 |
| **30-Jun-2018** | | | | |
| At 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 |
| Carrying amount at the 1 July 2017 | 81,802 | 1,332 | – | 83,134 |
| Acquisition 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 30 June 2018 | 106,858 | 3,198 | – | 110,056 |

Goodwill Cash Generating Unit (CGU) group allocation

The Group has two CGUs, the Operating Brands CGU and the Search Marketing CGU. The entire goodwill balance of $108,076,000 (30 June 2018: $106,858,000) relates to Operating Brands CGU.

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

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

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

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

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

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

Key assumptions

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

## 6. Intangible assets (continued)

*Projected cash flows*

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

*Discount rates*

Discount rates are based on the Group's pre-tax weighted average cost of capital (WACC) adjusted if necessary to reflect the specific characteristics of each CGU group and to obtain a post-tax discount rate. Discount rates used are appropriate for the currency in which cash flows are generated and are adjusted to reflect the current view on the appropriate debt equity ratio and risks inherent in assessing future cash flows.

*Growth rates*

A compound average growth rate (CAGR) of 2.4% (30 June 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 rates of 2.5% (30 June 2018: 2.5%) are used into perpetuity, based on expected long-range growth rates for the industry.

*Impairment testing key assumptions for Operating Brands CGU*

| | **31-Dec-2018** | **30-Jun-2018** |
|---|---|---|
| Post-tax discount rate % | 10.51 – 11.48 | 10.41 – 11.50 |
| Pre-tax discount rate % | 12.97 – 16.07 | 12.96 – 16.09 |
| Long-term perpetuity growth rate % | 2.50 | 2.50 |

Sensitivity assumptions for impairment testing assumptions

As at 31 December 2018, management has identified that for the carrying amount to exceed the recoverable amount the discount rate would need to increase by approximately 1.5% to 2.5% depending on the currency. A nil growth rate in the cash flows for the first five years would continue to generate an estimated recoverable amount above the carrying amount.

## 7. Contingent liabilities

*Indemnities*
Indemnities have been provided to Directors and certain Executive Officers of the Company in respect of third parties arising from their positions, except where the liability arises out of conduct involving lack of good faith. No monetary limit applied to these agreements and there are no known obligations outstanding at 31 December 2018.

## 8. Key management personnel and other related party disclosures

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

A number of the key management personnel, or their related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. There were no transactions with the Company or its subsidiaries and key management personnel in the current or prior reporting period.

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

## 9. Contingent consideration payable

| In thousands of AUD | 2018 | 2017 |
|---|---|---|
| **Current** | | |
| Contingent consideration payable | 11,268 | – |
| **Non-current** | | |
| Contingent consideration payable | 15,419 | 25,802 |

Reconciliations of the carrying amounts of contingent consideration:

| | | |
|---|---|---|
| Carrying amount at the beginning of the period | 25,802 | 10,143 |
| Recognised in business combination | – | 19,362 |
| Unwind of present value interest | 579 | 628 |
| Effect of movements in exchange rates | 306 | 161 |
| Contingent consideration paid | – | (4,492) |
| Carrying amount at the end of the period | 26,687 | 25,802 |

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.

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.<br>- Risk-adjusted discount rate: 3.75% to 4.55%. | The estimated fair value would increase (decrease) if:<br>- the EBIT is higher (lower); or<br>- the risk-adjusted discount rate were lower (higher). |

Sensitivity analysis

Reasonably possible changes at 31 December 2018 to one of the significant unobservable inputs, holding other inputs constant, would have the following effects on the fair values of contingent consideration:

| In thousands of AUD | Increase | Decrease |
|---|---|---|
| Average EBIT (5% movement) | 812 | (3,525) |
| Average EBIT (10% movement) | 4,602 | (4,752) |
| Risk-adjusted discount rate (0.5% movement) | (315) | 315 |

Average EBIT sensitivity relates only to the EBIT of Eastwick Communications and Orchard Marketing.

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.

## 10. Sale of business asset

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

## 11. Subsequent events

### Dividend

Subsequent to the interim reporting date, the Directors have declared an interim dividend, with respect to ordinary shares, of 2.5 cents per share, fully franked. The interim dividend will have a record date of 28 February 2019 and a payment date of 18 March 2019. The financial effect of this dividend has not been brought to account in the financial statements for the half year ended 31 December 2018 but will be recognised in subsequent financial reports.

Except for the events listed above there has not arisen, in the interval between the end of the interim period and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in the future financial period.

## Directors' Declaration

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

1. the condensed interim consolidated financial statements and notes set out on page 4 to 22 are in accordance with the Corporations Act 2001 including:
   (a) giving a true and fair view of the Group's financial position as at 31 December 2018 and the performance for the half-year ended on that date; and
   (b) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Sydney this 13th day of February 2019.

Signed in accordance with a resolution of the directors:

John Porter
Chairman

# Independent Auditor's Review Report

## To the shareholders of Enero Group Limited

## Report on the Half-year Financial Report

### Conclusion

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

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

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2018 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

- Consolidated interim statement of financial position as at 31 December 2018
- Consolidated interim income statement, Consolidated interim statement of comprehensive income, Consolidated interim statement of changes in equity and Consolidated interim statement of cash flows for the Half-year ended on that date
- Notes 1 to 11 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The ***Group*** comprises Enero Group Limited (the Company) and the entities it controlled at the Half year's end or from time to time during the Half-year Period.

### Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Company are responsible for:

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

## Auditor’s responsibility for the review of the [Half-year/Interim] Financial Report

Our responsibility is to express a conclusion on the Half-year Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Half-year Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group’s financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Enero Group Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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

KPMG | Caoimhe Toouli

KPMG

Caoimhe Toouli

*Partner*

Sydney

13 February 2019

# Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

## To the Directors of Enero Group Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Enero Group Limited for the half-year ended 31 December 2018 there have been:

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

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

KPMG

KPMG

Caoimhe Toouli

Caoimhe Toouli
Partner

Sydney
13 February 2019