



Enero Group Limited and Controlled Entities
ABN 97 091 524 515

Preliminary Final Report

Appendix 4E

Year ended 30 June 2017

Enero Group Limited

Preliminary Final Report - year ended 30 June 2017

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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 2016 to 30 June 2017.

The previous corresponding reporting period is 1 July 2015 to 30 June 2016.

Key information

In thousands of AUD

	30 June 2017	30 June 2016	% Change	Amount Change
Gross revenues from ordinary activities	180,666	213,632	(15.4%)	(32,966)
Profit/(loss) after tax attributable to members	1,796	6,585	(72.7%)	(4,789)
Profit/(loss) for the period attributable to members	1,796	6,585	(72.7%)	(4,789)

Dividends	Amount per security	Total amount AUD'000	Date of payment
Fully franked special dividend	5 cents	4,280	26 June 2017

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

Additional Information

	Current period	Previous corresponding period
Net tangible asset backing per ordinary share	0.24	0.43

Explanation of results

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

Summary of key results:

Reconciliation of statutory profit after tax to Operating EBITDA:

In thousands of AUD	2017	2016
Net revenue	100,172	113,488
Operating EBITDA	10,364	13,220
Depreciation and amortisation expenses	(3,758)	(3,060)
Net finance (costs)/income	(149)	170
Non-recurring dual occupancy costs	(637)	–
Incidental acquisition costs	(156)	–
Contingent consideration fair value loss	(2,303)	–
Profit before tax	3,361	10,330
Income tax expense	(1,431)	(2,215)
Statutory profit after tax	1,930	8,115

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Significant items

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

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

Basis of preparation

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

Operating EBITDA is calculated as profit before interest, taxes, depreciation, amortisation, impairment, contingent consideration fair value loss, non-recurring dual occupancy costs, and incidental acquisition costs. Operating EBITDA, which is reconciled in the table on page 2 is the primary measure used by management and the Directors in assessing the performance of the Group. It provides information on the Group's cash flow generation excluding significant transactions and non-cash items which are not representative of the Group's on-going operations.

Operating performance

The Group consists of 10 marketing and communication services businesses across seven countries with more than 500 employees. The Group's service offering includes integrated marketing and communication services, including strategy, market research & insights, advertising, public relations, communications planning, design, events management, direct marketing and corporate communications.

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

The Group achieved Net Revenue of \$100.2m, a decrease of 11.7% compared to the prior reporting period. Operating EBITDA of \$10.4m was 21.6% below the prior reporting period. The Operating EBITDA margin decreased from 11.6% in 2016 to 10.4% in 2017. In the current year, 56% of the Operating Brands segment's Operating EBITDA is generated from international markets.

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

- Material negative foreign currency translation differences converting UK and USA generated Revenue and Operating EBITDA to Australian Dollars due to the strengthening of the Australian dollar across the financial year relative to the prior year. On a constant currency basis the decrease in Net Revenue is reduced to 4.9% and Operating EBITDA is reduced to 11.8%; and
- Some key client losses across the financial year particularly in Naked Communications (resulting in the subsequent closure of the London and New York offices) and lower domain monetisation in the Search Marketing businesses of OB Media and Dark Blue Sea.

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Acquisition

On 29 September 2016 the Group, via its subsidiary Hotwire Public Relations Group LLC, acquired the business net assets of Eastwick Communications, a USA based independent technology public relations agency with offices in San Francisco and New York. The purchase price was an upfront cash payment of US\$ 5 million (A\$6.3 million) in addition to contingent consideration payments tied to EBIT targets through to the period 30 June 2020. Refer to note 7 Acquisition for details.

Capital Management

During the year, the capital restrictions which had been in place since September 2010 under historical restructured deferred consideration agreements were released following agreement with the remaining deferred consideration liability holders to waive any further rights for nominal consideration.

The Company immediately implemented the following capital management initiatives:

- The Company declared a fully franked special dividend which was paid on 26 June 2017. Refer to Dividend paid on page 2 of this Preliminary Report for further details; and
- The Company made an adjustment to Share Capital under section 258F of the Corporations Act, reducing Share Capital by \$397.2m for share capital that is lost or not represented by available assets. While the adjustment to Share Capital will have the effect of reducing the Share Capital account and reducing the Company's accumulated losses, this adjustment had no impact on the net assets, financial results, cash flow or funding of the Company.

Events subsequent to year end reporting date

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.

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Consolidated income statement for the year ended 30 June 2017

In thousands of AUD	Note	2017	2016
Gross revenue		180,666	213,632
Directly attributable costs of sales		(80,494)	(100,144)
Net revenue		100,172	113,488
Other income		207	206
Employee expenses		(71,382)	(79,085)
Occupancy costs		(8,036)	(8,082)
Travel expenses		(1,244)	(1,515)
Communication expenses		(2,038)	(2,252)
Compliance expenses		(1,434)	(2,114)
Depreciation and amortisation expenses		(3,758)	(3,060)
Administration expenses		(6,518)	(7,426)
Incidental acquisition costs		(156)	–
Contingent consideration fair value loss	6	(2,303)	–
Net finance (costs)/income		(149)	170
Profit before income tax		3,361	10,330
Income tax expense	3	(1,431)	(2,215)
Profit for the year		1,930	8,115
Attributable to:			
Equity holders of the parent		1,796	6,585
Non-controlling interests		134	1,530
		1,930	8,115
Basic earnings per share (AUD cents)	4	2.2	8.0
Diluted earnings per share (AUD cents)	4	2.1	7.8

Notes on pages 10 to 19 are an integral part of this preliminary final report.

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Consolidated statement of comprehensive income for the year ended 30 June 2017

In thousands of AUD	Note	2017	2016
Profit for the year		1,930	8,115
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		(4,909)	(10,851)
Total items that may be reclassified subsequently to profit or loss		(4,909)	(10,851)
Other comprehensive income for the year, net of tax		(4,909)	(10,851)
Total comprehensive loss for the year		(2,979)	(2,736)
Attributable to:			
Equity holders of the parent		(3,065)	(4,268)
Non-controlling interests		86	1,532
		(2,979)	(2,736)

Notes on pages 10 to 19 are an integral part of this preliminary final report.

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Consolidated statement of changes in equity for the year ended 30 June 2017

In thousands of AUD	Note	Attributable to owners of the Company						Total	Non-controlling interests	Total equity
		Share capital	Retained profits/ (accumulated losses)	Profit appropriation reserve	Share based payment reserve	Reserve change in ownership interest in subsidiary	Foreign currency translation reserve			
Opening balance at 1 July 2015		491,509	(383,615)	–	14,552	(1,417)	(8,335)	112,694	2,824	115,518
Profit for the year		–	6,585	–	–	–	–	6,585	1,530	8,115
Other comprehensive income for the year net of tax		–	–	–	–	–	(10,853)	(10,853)	2	(10,851)
Total comprehensive income/(loss) for the year		–	6,585	–	–	–	(10,853)	(4,268)	1,532	(2,736)
Transactions with owners recorded directly in equity:										
Shares issued to employees on exercise of Share Appreciation Rights		67	–	–	(67)	–	–	–	–	–
Transfer from share based payment reserve to accumulated losses		–	1,787	–	(1,787)	–	–	–	–	–
Dividends paid to equity holders		–	–	–	–	–	–	–	(2,324)	(2,324)
Share based payment expense		–	–	–	801	–	–	801	–	801
Closing balance at 30 June 2016		491,576	(375,243)	–	13,499	(1,417)	(19,188)	109,227	2,032	111,259
Opening balance at 1 July 2016		491,576	(375,243)	–	13,499	(1,417)	(19,188)	109,227	2,032	111,259
Profit for the year		–	1,796	–	–	–	–	1,796	134	1,930
Other comprehensive income for the year net of tax		–	–	–	–	–	(4,861)	(4,861)	(48)	(4,909)
Total comprehensive income/(loss) for the year		–	1,796	–	–	–	(4,861)	(3,065)	86	(2,979)
Transactions with owners recorded directly in equity:										
Shares issued to employees on exercise of Share Appreciation Rights		2,013	–	–	(2,013)	–	–	–	–	–
Share capital reduction in accordance with section 258F of the Corporations Act 2001		(397,200)	397,200	–	–	–	–	–	–	–
Transfer to profit appropriation reserve		–	(12,443)	12,443	–	–	–	–	–	–
Dividends paid to equity holders		–	(4,280)	–	–	–	–	(4,280)	(1,414)	(5,694)
Share based payment expense		–	–	–	371	–	–	371	–	371
Closing balance at 30 June 2017		96,389	7,030	12,443	11,857	(1,417)	(24,049)	102,253	704	102,957

Notes on pages 10 to 19 are an integral part of this preliminary final report.

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Consolidated statement of financial position as at 30 June 2017

In thousands of AUD	Note	2017	2016
Assets			
Cash and cash equivalents		32,512	37,620
Trade and other receivables		19,994	24,305
Other assets		4,251	4,630
Income tax receivable		70	–
Total current assets		56,827	66,555
Deferred tax assets		1,735	1,715
Plant and equipment		6,899	4,942
Other assets		156	338
Intangible assets	5	83,134	75,502
Total non-current assets		91,924	82,497
Total assets		148,751	149,052
Liabilities			
Trade and other payables		26,568	32,237
Contingent consideration payable	6	4,512	–
Interest-bearing loans and borrowings		1,352	9
Employee benefits		2,772	2,166
Income tax payable		512	994
Provisions		18	163
Total current liabilities		35,734	35,569
Contingent consideration payable	6	5,631	–
Interest-bearing loans and borrowings		1,915	11
Employee benefits		661	599
Provisions		1,853	1,614
Total non-current liabilities		10,060	2,224
Total liabilities		45,794	37,793
Net assets		102,957	111,259
Equity			
Issued capital		96,389	491,576
Other reserves		(13,609)	(7,106)
Profit appropriation reserve		12,443	–
Retained profits/(accumulated losses)		7,030	(375,243)
Total equity attributable to equity holders of the parent		102,253	109,227
Non-controlling interests		704	2,032
Total equity		102,957	111,259

Notes on pages 10 to 19 are an integral part of this preliminary final report.

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Consolidated statement of cash flows for the year ended 30 June 2017

In thousands of AUD	Note	2017	2016
Cash flows from operating activities			
Cash receipts from customers		203,338	243,572
Cash paid to suppliers and employees		(191,610)	(225,317)
Cash generated from operations		11,728	18,255
Interest received		259	257
Income taxes paid		(1,965)	(1,424)
Interest paid		(182)	(88)
Net cash from operating activities		9,840	17,000
Cash flows from investing activities			
Proceeds from disposal of non-current assets		91	10
Acquisition of plant and equipment		(1,295)	(1,081)
Acquisition of a business, net of cash acquired	7	(6,328)	–
Net cash used in investing activities		(7,532)	(1,071)
Cash flows from financing activities			
Finance lease payments		(753)	(31)
Dividends paid to equity holders of the parent		(4,280)	–
Dividends paid to non-controlling interests in controlled entities		(1,414)	(2,324)
Net cash used in financing activities		(6,447)	(2,355)
Net (decrease)/increase in cash and cash equivalents		(4,139)	13,574
Effect of exchange rate fluctuations on cash held		(969)	(1,766)
Cash and cash equivalents at 1 July		37,620	25,812
Cash and cash equivalents at 30 June		32,512	37,620

Notes on pages 10 to 19 are an integral part of this preliminary final report.

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Notes to the preliminary final report for the year ended 30 June 2017

1. Statement of significant accounting policies

a. Statement of compliance

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

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

The consolidated annual financial report is in the process of being audited and is expected to be made available on 24 August 2017. This preliminary final report does not include all the notes of the type normally included in a consolidated annual financial report. Accordingly, this report should be read in conjunction with any public announcements made by the Company during the year in accordance with the continuous disclosure requirements arising under the Corporations Act 2001 and ASX Listing Rules.

b. Significant accounting policies

The accounting policies applied by the Group in this report are the same as those applied by the Group in its consolidated annual financial report as at and for the year ended 30 June 2016 and with the following addition:

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.

c. Estimates

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

In preparing this report, the significant judgements made by management in applying the Group's accounting policies and the key sources of uncertainty in estimation were the same as those that applied to the consolidated annual financial report for the year ended 30 June 2016 and with the following additions:

- Contingent consideration payable: Refer Note 6 Contingent consideration payable for further details.
- Business combinations: Refer Note 7 Acquisition for further details.

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1. Statement of significant accounting policies (continued)

Measurement of fair value

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

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

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

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

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

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

2. Operating segments

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

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

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

The measure of reporting to the CEO is on an Operating EBITDA basis (defined below), which excludes significant and non-operating items which are separately presented because of their nature, size and expected infrequent occurrence and does not reflect the underlying trading of the operations.

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

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

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2. Operating segments (continued)

2017 In thousands of AUD	Operating Brands	Total segment	Unallocated	Eliminations	Consolidated
Gross revenue	180,666	180,666	–	–	180,666
Directly attributable cost of sales	(80,494)	(80,494)	–	–	(80,494)
Net revenue	100,172	100,172	–	–	100,172
Other income	207	207	–	–	207
Operating expenses	(84,323)	(84,323)	(5,692)	–	(90,015)
Operating EBITDA	16,056	16,056	(5,692)	–	10,364
Depreciation and amortisation expenses					(3,758)
Incidental acquisition costs	(156)	(156)	–	–	(156)
Contingent consideration fair value loss	(2,208)	(2,208)	(95)	–	(2,303)
Non-recurring dual occupancy costs	(348)	(348)	(289)	–	(637)
Net finance costs					(149)
Profit before income tax					3,361
Income tax expense					(1,431)
Profit for the year					1,930
Goodwill	81,802	81,802	–	–	81,802
Other intangibles	1,332	1,332	–	–	1,332
Assets excluding intangibles	42,217	42,217	42,055	(18,655)	65,617
Total assets	125,351	125,351	42,055	(18,655)	148,751
Liabilities	39,035	39,035	25,414	(18,655)	45,794
Total liabilities	39,035	39,035	25,414	(18,655)	45,794
Amortisation of intangibles	369	369	–	–	369
Depreciation	2,977	2,977	412	–	3,389
Capital expenditure	606	606	689	–	1,295

* All segments are continuing operations.

Geographical segments

The operating segments are managed on a worldwide basis. However, there are three geographic areas of operation.

Geographical information

In thousands of AUD	Net revenues	2017		2016	
		Non-current assets	Net revenues	Non-current assets	Net revenues
Australia	42,905	5,913	45,983	3,187	45,983
UK and Europe	37,968	1,490	51,212	2,375	51,212
USA	19,299	1,387	16,293	1,433	16,293
Unallocated intangibles ⁽ⁱ⁾	–	83,134	–	–	83,134
Total	100,172	91,924	113,488	82,497	113,488

(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.

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2. Operating segments (continued)

2016 In thousands of AUD	Operating Brands	Total segment	Unallocated	Eliminations	Consolidated
Gross revenue	213,632	213,632	–	–	213,632
Directly attributable cost of sales	(100,144)	(100,144)	–	–	(100,144)
Net revenue	113,488	113,488	–	–	113,488
Other income	206	206	–	–	206
Operating expenses	(93,754)	(93,754)	(6,720)	–	(100,474)
Operating EBITDA	19,940	19,940	(6,720)	–	13,220
Depreciation and amortisation expenses					(3,060)
Net finance income					170
Profit before income tax					10,330
Income tax expense					(2,215)
Profit for the year					8,115
Goodwill	75,446	75,446	–	–	75,446
Other intangibles	56	56	–	–	56
Assets excluding intangibles	60,244	60,244	40,178	(26,872)	73,550
Total assets	135,746	135,746	40,178	(26,872)	149,052
Liabilities	35,109	35,109	29,556	(26,872)	37,793
Total liabilities	35,109	35,109	29,556	(26,872)	37,793
Amortisation of intangibles	59	59	–	–	59
Depreciation	2,658	2,658	343	–	3,001
Capital expenditure	1,034	1,034	47	–	1,081

* All segments are continuing operations.

Major Customer

Net revenue from a customer of the Operating Brands segment represented approximately 13.0% of the Group's total net revenue for the year ended 30 June 2017 (2016: no single customer of the Group had net revenue exceeding 10% of the Group's total net revenue).

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3. Income tax expense

Recognised in the income statement

In thousands of AUD	2017	2016
Current tax expense		
Current year	1,343	2,582
Adjustments for prior years	119	(544)
	1,462	2,038
Deferred tax expense		
Origination and reversal of temporary differences	(31)	177
	(31)	177
Income tax expense in income statement	1,431	2,215
Numerical reconciliation between tax expense and pre-tax accounting profit		
Profit for the year	1,930	8,115
Income tax expense	1,431	2,215
Profit excluding income tax	3,361	10,330
Income tax expense using the Company's domestic tax rate of 30% (2016: 30%)	1,008	3,099
Increase in income tax expense due to:		
Share-based payment expense	111	240
Tax losses not brought to account	663	410
Present value interest	68	–
Contingent consideration fair value loss	691	–
Under/(over) provision for tax in previous years	119	(544)
Decrease in income tax expense due to:		
Effect of losses not previously recognised	(966)	(666)
Effect of lower tax rate on overseas incomes	(239)	(472)
Other (subtraction)/non-deductible items	(24)	148
Income tax expense on pre-tax net profit	1,431	2,215

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4. Earnings per share

	2017	2016
Profit attributable to equity holders of the parent		
In thousands of AUD		
Profit for the year	1,930	8,115
Non-controlling interests	(134)	(1,530)
Profit for the year attributable to equity holders of the parent	1,796	6,585

Weighted average number of ordinary shares

In thousands of shares		
Weighted average number of ordinary shares – basic	83,605	82,353
Shares issuable under equity-based compensation plans	1,669	1,790
Weighted average number of ordinary shares – diluted	85,274	84,143

Earnings per share

In AUD cents		
Basic	2.2	8.0
Diluted	2.1	7.8

5. Intangible assets

	Goodwill	IT related intellectual property	Contracts and customer relationships	Internally generated intangible assets	Total
In thousands of AUD					
2017					
Cost	280,694	6,556	1,639	2,085	290,974
Accumulated amortisation	–	(299)	(307)	(1,375)	(1,981)
Impairment	(198,892)	(6,257)	–	(710)	(205,859)
Net carrying amount	81,802	–	1,332	–	83,134
Reconciliations of the carrying amounts of intangibles are set out below:					
Carrying amount at the beginning of the year	75,446	–	–	56	75,502
Acquired through business combination	10,275	–	1,650	–	11,925
Amortisation	–	–	(313)	(56)	(369)
Effect of movements in exchange rates	(3,919)	–	(5)	–	(3,924)
Carrying amount at the end of the year	81,802	–	1,332	–	83,134

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5. Intangible assets (continued)

2016					
Cost	283,086	9,094	16,927	3,085	312,192
Accumulated amortisation	–	(299)	(16,246)	(1,346)	(17,891)
Impairment	(207,640)	(8,795)	(681)	(1,683)	(218,799)
Net carrying amount	75,446	–	–	56	75,502
Reconciliations of the carrying amounts of intangibles are set out below:					
Carrying amount at the beginning of the year	84,430	–	–	115	84,545
Amortisation	–	–	–	(59)	(59)
Effect of movements in exchange rates	(8,984)	–	–	–	(8,984)
Carrying amount at the end of the year	75,446	–	–	56	75,502

Goodwill CGU group allocation

The Group has two CGUs, the Operating Brands CGU and the Search Marketing CGU. The entire goodwill balance of \$81,802,000 (2016: \$75,446,000) relates to Operating Brands CGU.

The increase in the goodwill carrying value as compared to the prior reporting period is primarily in relation acquisition of Eastwick Communications (refer Note 7 Acquisition), partially offset by a decrease in 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 was based on value in use in both the current and prior year. The methodologies and assumptions used for calculating value in use for all of the CGU groups have remained materially consistent with those applied in prior year.

Key assumptions

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

Projected cash flows

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

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.

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5. Intangible assets (continued)

Growth rates

A compound average growth rate (CAGR) of 2.4% (30 June 2016: 2.4%) has been applied to the cash flows of the first five years of cash flows. The five years of cash flows are discounted to present value. The growth rate is based on analysis of organic growth expectations, historical and industry growth rates. The growth rate also takes into account weighting of international operations of the Group.

Long-term growth rate into perpetuity

Long-term growth rates of 2.5% (30 June 2016: 2.5%) are used into perpetuity, based on expected long-range growth rates for the industry.

Impairment testing key assumptions for Operating Brands CGU

In thousands of AUD	2017	2016
Post-tax discount rate %	10.14 – 11.36	10.46 – 11.18
Pre-tax discount rate %	12.23 – 16.27	12.86 – 16.29
Long-term perpetuity growth rate %	2.50	2.50

Sensitivity assumptions for impairment testing assumptions

As at 30 June 2017, management has identified that for the carrying amount to exceed the recoverable amount the discount rate would need to increase by 2.7% to 4.0% depending on the currency. A nil growth rate in the cash flows of first five years would continue to generate an estimated recoverable amount above the carrying amount.

6. Contingent consideration payables

In thousands of AUD	2017	2016
Current		
Contingent consideration payable	4,512	–
Non-current		
Contingent consideration payable	5,631	–

Recognised

The Group initially recognised an amount of \$7,809,000 (30 June 2016: \$Nil) for contingent consideration payable to the vendors of Eastwick Communications in connection with the acquisition completed on 29 September 2016. The fair value of the future contingent consideration liability is estimated based on the achievement of EBIT targets through to 30 June 2020. As at 30 June 2017, the Group increased the contingent consideration payable by \$2,208,000 based on a reassessment of the achievement of EBIT targets. This amount has been included in contingent consideration fair value loss in the income statement. There is uncertainty around the actual payments that will be made as the payments are subject to the performance of Eastwick Communications subsequent to the reporting date, including a minimum EBIT threshold for future payments and a final uncapped payment based on the average EBIT of the preceding four years. Actual future payments may differ from the estimated liability.

Unrecognised

The Group had unrecognised contingent deferred consideration liabilities of \$17,351,000 at 30 June 2016 as payment of these amounts were not considered probable. Following the expiry of individual vendor sunset dates of contingent deferred consideration liabilities between July 2016 and April 2017, the total contingent liability amounts under these arrangements was reduced by a further \$17,234,000. In May 2017, the Company agreed with its remaining contingent deferred consideration liability holders to waive any further rights under the agreements for \$95,000. This amount has been included in contingent consideration fair value loss in the income statement.

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6. Contingent consideration payables (continued)

Fair value measurement:

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

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

Reconciliation of contingent consideration payable:

In thousands of AUD	2017	2016
Carrying amount at the beginning of the year	–	–
Assumed in a business combination	7,809	–
Contingent consideration fair value loss	2,208	–
Present value interest	226	–
Effect of movement in exchange rates	(100)	–
Carrying amount at the end of the year	10,143	–

Sensitivity analysis

Reasonably possible changes at 30 June 2017 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)	745	(745)
Risk-adjusted discount rate (0.5% movement)	(104)	106

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7. Acquisition

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

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

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

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

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

Effect of acquisition for the year ended 30 June 2017 on the Group's assets and liabilities.

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

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

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

Goodwill on acquisition

In thousands of AUD

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

Total acquisition cash outflow for year ended 30 June 2017

In thousands of AUD

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