

Photon Group Limited
2010 Annual General Meeting – CEO Address

Fellow Shareholders:

I would like to take this opportunity to update you on the state of our company and our plan for the future.

This year we are plainly in a process of rebuilding.

As you know, we completed a recapitalisation in difficult circumstances at the end of September. We now have a new three-year banking facility in place, and our deferred consideration liability has been restructured to better align incentives with corporate performance.

Since completing the recapitalisation we have focused on the strategy and operations of the company. Photon is a diverse company. At June 1, it comprised 45 separate business units spanning multiple marketing specialisations in five divisions across 13 countries. For a small company, that is far too complex and thinly spread. In addition, most of these businesses have tended to operate quite independently with limited synergies.

A major priority in the coming months is continuing to simplify our structure, making the company easier to manage and more efficient. Having the right people running our businesses, with the right incentives in place, will help create shareholder value.

Across the company, we are merging and consolidating businesses to improve our offering to clients. By the end of December we will have reduced those 45 companies by

at least 25 percent – mostly through mergers. That will be to everyone's benefit – our clients, our staff, and ultimately I believe, to all of us as shareholders.

We recently released a trading update which shows that overall results for FY11 to the end of October were broadly in-line with last year's results. The area where results were significantly lower than last year was in the International Division, where EBITDA was down 36 percent versus the prior year. This was largely the result of lower results at Naked and The Leading Edge – which both remain strong franchises.

All parts of our business are focussed on operational improvement:

- Our network of Australian agencies encompass a broad range of businesses-- from integrated advertising agencies and research through to public relations. We are working to create more opportunities for collaboration. We have also undertaken promising consolidations. These include the merger of AdPartners into major agency BWM, and the creation of a stronger promotional group merging Brass Tacks into ISS Marketing and Kaleidoscope.
- Our International division comprises strong UK-based franchises such as Hotwire, Naked, Retail Insight and Frank, as well as our search marketing businesses. A number of these businesses have strong organic growth potential, including geographically. At The Leading Edge we have recently installed new management who are in the process of revitalising and expanding the business. Auspoll was recently merged into TLE to make it part of a bigger, stronger research company, and TLE also recently opened a small office in New York which has had a promising start. Naked remains a powerful global franchise, and we are working on expanding its offering and capabilities. The merger of Bellamy Hayden and Naked in Sydney, for instance, has allowed us to create the leading

communications strategy firm in the region and is already enhancing our presence and prospects.

- Our Field Marketing Division consists of a variety of businesses in retail activation, which involves converting passive shoppers into active buyers. We have a number of strong businesses in this field, led by entrepreneurial CEOs. These businesses have largely operated independently, without much group-level strategic direction or operational coordination. The division overall has done better to date in this year, though is still down 15 percent from FY09. Our largest business in this division, The Bailey Group, in FY10 produced only about half of its peak profit but remains a leading franchise with a strong team committed to growth through delivering excellent results for clients. Other businesses in this division are having strong years. These are all well positioned businesses with experienced CEOs and we are working with them to further unlock their potential by exploiting our scale and sharpening our strategy.

We have a great opportunity to revitalise our company in the months and years ahead. However this requires change – including leadership and structure. We cannot fundamentally transform the culture, strategy and operational performance of the company if we just keep doing things in the same way that they have been done in the past.

Of course, such significant change is not easy for anyone involved. I particularly regret that while we have worked hard to minimise redundancies over the last few months, a small number have been unavoidable. Many people have had to deal with various dislocations and it is of great credit to everyone across the company that the impact on clients has been minimal.

Over the last few months we have made a number of senior management changes that have enabled us to put world-class executives in important new roles at the company. Together with the existing team, they are focused on Photon's transformation and are improving the quality of management across the board. In particular:

- Jon Wilkins has moved into a new role as head of Global Business Development and Strategy. As Founder of Naked, Jon is a genuine global thought leader and is ideally placed to accelerate our organic growth opportunities;
- Nigel Long has become head of International, based in London. After successfully running a number of international firms, including being CEO of Naked, Nigel brings a wealth of experience and expertise to this role.
- Matthew Melhuish, Founder and Executive Chairman of BMF -- one of Australia's most successful integrated agencies -- has recently stepped into a new role overseeing our Australian agencies group. Matthew is a leader in the industry with world-class experience, and is already bringing enormous value to the businesses in our portfolio.

I have been impressed by the many talented people that I have met across our businesses. They demonstrate passion, insight, ingenuity and creativity. Throughout the recapitalisation process, they got on with the job of looking after our clients and delivering effective outcomes on a daily basis.

At all times the focus has been on improving the way we serve our clients and, in doing that, creating value for shareholders and enhancing opportunities for our employees.

In the near term, we will grow by prioritising the most attractive organic opportunities, rather than focusing on acquisitions. We will be vigilant to avoid the hubris in which acquisitions are celebrated as victories in themselves.

We will allocate our limited capital where the organic growth opportunities are most attractive, scalable and consistent with our strategy. We are focused on continuing to build deep digital expertise as part of the DNA of all of our services. This is not about simply offering digital services through specialised agencies. On the contrary, each of our businesses must quickly build strong internal capabilities to serve our clients – that's the obvious reality of the market today and the opportunities ahead.

Overall, our focus will be on continually improving our operational position and financial structure so that we have the right platform for long-term growth.

We look forward to working with you on this journey and appreciate your support.