



LEARN FROM
THE PAST,
ACT IN THE
PRESENT
AND CREATE
THE FUTURE.



STW GROUP ANNUAL REPORT 2010



COMPANY HIGHLIGHTS	1
CHAIRMAN'S REPORT	2
CEO'S REPORT	4
WHO WE ARE	10
WHAT WE DO	14
WHY WE EXIST	15
WORK FROM 2010	22
WHO WE EMPLOY	27
BOARD OF DIRECTORS	34
DIRECTORS' REPORT	36
AUDITOR'S INDEPENDENCE DECLARATION	40
REMUNERATION REPORT	41
CORPORATE GOVERNANCE STATEMENT	55
FINANCIAL STATEMENTS	61
DIRECTORS' DECLARATION	128
INDEPENDENT AUDITOR'S REPORT	130
ASX ADDITIONAL INFORMATION	132
CORPORATE DIRECTORY	133



COMPANY HIGHLIGHTS

STW Group is one of the world's largest and most successful marketing services companies.

The Group delivered strongly in 2010, with revenues returning to pre-GFC levels and an increase in underlying net profit after tax of 17%.

This result reflects the strength and quality of our businesses, our success in gaining market share, the outstanding talent and commitment of our people and increased investment from our clients.

- Australasia's largest, most profitable marketing communications business
- Solid revenue and profit growth, almost all of which was organic
- Significant market share gains in 2010 driving revenue growth
- Exciting new business wins and organic expansion opportunities outside Australia and New Zealand
- Strong momentum in digital and technology leadership
- Exceptionally strong free cash flow of \$75.2 million for the full year (2009: \$66.7 million) supported by a continued improvement in working capital
- Further reduction in net debt and future earnout payments to \$76.1 million (31 December 2009: \$131.1 million).
- Signed new banking facilities during 2010 securing bank funding through to at least 2014, with an option to further extend facilities until January 2015
- Total dividend relating to the 2010 year of 6.5 cents per share, fully franked (2009: 3.5 cents per share, fully franked). Full year dividend payout ratio increased from 39% to 60% of underlying profits, reflecting strong business performance and confidence in outlook.
- Capital management review currently underway in light of the strengthened financial position. Update to be provided to shareholders prior to the Annual General Meeting in May 2011.



CHAIRMAN'S REPORT

ROBERT MACTIER



We continue to be very confident in the strategic direction that we have taken the group, and we firmly believe there is much opportunity still to be realised within STW.

STW delivered strongly in 2010.

Through 2008 and 2009 we made judicious (though oftentimes difficult) decisions regarding our business. As 2010 unfolded, these tough calls turned out to be the right calls.

I'd like to say thank you to those who stood by us through the challenging times. Those shareholders who supported our rights issue in May 2009 and who remain on our register today have certainly seen their loyalty start to yield better rewards.

Our performance in 2010 is headlined by a 17% increase in underlying net profit to \$38.7 million. This is a strong result that clearly reflects:

1. a sense amongst our very diverse group of employees and partners that being part of the STW Group delivers real advantages and benefits
2. a return to strong organic growth, including many new client wins as well as realising opportunities from our existing clients
3. strong underlying statutory EBITDA growth of 8.8% to \$80.4 million
4. excellent cash flow from operations (pre-interest and tax) of \$75.2 million, reflecting a strong focus on managing our working capital
5. a much stronger balance sheet position with combined net debt and earnout liabilities down to \$76.1 million from \$131.1 million a year earlier.

This pleasing performance poses an obvious question: how do we make sure that our shareholders benefit from our strengthened capital position, excellent cash flow and surplus franking credit balance?

Our first step in answering this question was to increase the final dividend to 4.2 cents per share. The total full year dividend for 2010 was 6.5 cents per share (up from 3.5 cents in 2009). This represents an increase in the full year payout ratio from 39% to 60% of underlying net profit.



We are pleased that our evolution from holding company to parent company has played a significant part in our improved results in 2010. This strategy allows our operating companies to retain their identity and strengths while creating powerful group-based resources to help our businesses grow and win.

As a parent company, we offer many benefits including world-class training programs, unrivalled career opportunities for our people, and a culture that facilitates and rewards the sharing of ideas and relationships across our companies.

We also work with our operating companies to create shared offices where they can come together, collaborate on client assignments and accounts, and save significant amounts of money on rent and other expenses. In addition to this, we provide significant savings through our 'shared services' finance and administration staff.

The benefits of being part of the STW Group have been wholeheartedly embraced by our companies and our staff. They have embraced this model not because we asked them to, but because they believe in it and recognise the benefits that come from it.

While our parent company model represents a significant advantage, we must make no mistake that we operate in a very tough and competitive environment. But we continue to be very confident in the strategic direction that we have taken the Group, and we firmly believe there is much opportunity still to be realised within STW.

We are committed to making our 2010 results the first step in a long growth path, but recognise that to achieve this we need constant vigilance, an unrelenting focus, creative brilliance and enormous energy. Our management team is up for this challenge and your board stands firmly behind them as we look to the future and embark on the next chapter of our story.

I would like to take this opportunity to formally welcome Kim Anderson and Peter Cullinane, both of whom joined the STW board in 2010. They are each outstandingly qualified and I have no doubt that they will bring great wisdom, judgement and passion to the Group.

At our Annual General Meeting in May last year, we indicated that Anne Keating would be stepping down from the board during the next 12 months. Anne formally retired from the board after the 2010 full year results announcement on February 10th. On behalf of all our shareholders I would like to reiterate our thanks to Anne for her exceptionally dedicated and highly valued contribution to STW over the past 15 years.

We also recently announced that Russell Tate would step down as Deputy Chairman at the completion of this year's Annual General Meeting.

From our beginnings as a single advertising agency when he started with us in 1987 to one of the world's leading marketing services companies in 2011, Russell has made an enormous (in fact, incalculable) contribution to the Group. Without Russell's contribution, I am certain that STW would be a shadow of the thriving, successful business that it is today.

Most recently, Russell's transition from Executive Chairman to a non-executive role is a textbook example of how leadership can be successfully transitioned from the architect of the business to the next generation. His contribution, insight, drive and support will be missed across the Group. I trust that many of you will be able to join us at the Annual General Meeting on 10 May 2011 to formally thank Russell.

Finally, I would like to offer my sincerest thanks to our people - our senior management team of Mike Connaghan, Chris Savage and Lukas Aviani, and to all 2,300 employees of the STW Group.

Thank you all for your continued support and effort, for your relentless pursuit of great work for our clients, and for your ongoing commitment to the group's clients, our culture and our financial performance.

Robert Mactier
Chairman



CEO'S REPORT

MIKE CONNAGHAN



2011 looms as a pivotal year for STW. We are a leaner, smarter, more capable business. We will continue to build on our rock solid base as we expand both here and in new markets.

2010 was a good year for STW and its people.

At the close of 2010, I believe we can be very proud of the fact that our revenues are now ahead of pre-GFC levels.

The hard yards we did in 2009 no doubt held us in better stead than most. As things improved, we recognised that a lot of the hardship we endured and the loyalty demonstrated by our people in 2009 needed to be acknowledged and rewarded.

In 2010, we managed to do this, plus continue significant investment in our business, while still posting a strong rise in underlying net profit after tax of 17%.

We are only part way through our journey from holding company to parent company, but there is no doubt that we made significant strides in 2010.

As we begin 2011, we have a robust plan to drive our existing assets harder, push further into new geographies, and branch out into new and developing revenue streams.

For a few years now, we have been managing the STW Group and its operating companies through our '6 Star Dashboard™'. As a result, the transparency, efficiency and esprit de corps of the Group have improved significantly.

The six key pillars in our '6 Star Dashboard™' are Professionalism, People, Pipeline, Product, Partnership – and last but certainly not least – Performance.

In the area of Professionalism, I am very pleased with the strength of our results and the health of our balance sheet.

I must single out our new(ish) CFO Lukas Aviani. He and his team – with great direction and support from the STW board – have done a fantastic job.

Our balance sheet is in its strongest shape for many a year, with net debt reduced to \$33.5 million and estimated earnout obligations well in hand.



The strength of our finances allowed us to renew our banking arrangements late last year through to at least 2014, on very favourable terms.

Underpinning our strong financial position has been an intense focus on working capital and cashflow. We are very proud of the free cash flow results in 2010 of \$75.2 million, allowing us to confidently fund our earnouts, pay increased dividends, all while reducing net debt.

It is a well worn cliché in the marketing communications world that our only real assets arrive and leave in the lift every day – our People.

We decided very early on that we must build and support the very best training and professional development for our people. Even through a tough 2009, we continued to invest in this crucial initiative.

We built our SPUR™ program, which trained more than 1,000 of our staff through world-leading proprietary courses. We also built a three level 'high potentials program' for our top performing junior, mid-level and senior people across the group.

As we did this, we knew we were setting ourselves up as the "university of marketing communications". We knew that these programs were potentially going to train some good people for our competitors, but we were clear that overall it would lead to us motivating and retaining the best people. This has proven true as our staff churn rates across the group are now well below industry average.

Late in 2010, we also stepped up our investment in our 150 most senior staff. These are the people who will lead the group over the next decade and beyond. Our 'Path to Growth™' program will help each of these leaders develop a robust plan to keep them engaged and progressing in their lives and careers. As one senior industry veteran said to us after his induction, "I have worked for lots of the big players, both client and agency side, here and overseas. In all my years, I have never seen anything as good as this".

As a demonstration of intent and a reward for our most outstanding companies, we instituted our own internal dashboard awards in 2009. Let me run through the winners for 2010 to give you a flavour of some of our successes for the year.

Winning new business and gaining market share are the lifeblood of our business. 'Pipeline' (as we'll call it) has after 'People', been our highest priority. We knew through 2009 we needed to win more than our fair share, and we did.

In 2010, we remained focused and won a host of work from new and existing clients. Amongst an array of strong performers, Moon Communications stood above all others in new business. Not only did Moon grow their remit with existing clients Vodafone, Westfield and Sunglass Hut, but they welcomed new clients such as Tourism Vanuatu, Australian Broadcasting Corporation (ABC), and Star City Casino just to name a few.

Significantly, the team at Moon won the global account for Taiwanese mobile phone developer, HTC. This was a huge win for the group, and saw Moon take on some of the toughest international competition. This win has given us renewed confidence in looking for new revenue opportunities outside of Australia and New Zealand.

At the end of the day, our clients love our people but what they buy is our 'Product'. As CEO of this group of more than 70 companies and over 2,300 people, it never ceases to amaze me the incredible things that can happen when you put four or five of our brightest minds in a room. World-famous campaigns are conceived. New products are invented. Category changing ideas are born.

The STW company we believe stood out above the rest in the quality of their overall product is Designworks from New Zealand. All up Designworks won in excess of 30 industry awards, and most significantly the highest honour at the Vero 'Excellence in Business Awards'. Anyone who has seen, heard, or experienced 'cuddle class' on Air New Zealand would agree that Designworks are BIG thinkers.



CEO'S REPORT

MIKE CONNAGHAN

We are more confident than ever that our purpose and passion of 'Powering growth through ideas and creativity' is the correct path and entirely within reach.

While the whole world is moving in fast forward, few industries are changing as much as ours. So as part of our '6 Star Dashboard™' awards, we also single out the one company who we believe has delivered outstanding innovation in their business. There was a strong list of contenders for this award, but all were eventually trumped by Ikon Communications Sydney.

The online world is exploding and marketing through search engines is now a crucial part of any media plan. In many categories, search is becoming the battleground on which market share is won and lost. In 2010, Ikon built their own search capability. Today, this offering is one of the largest and most influential search businesses in the market.

In 2010, we saw significant growth and healthy margin improvement in our digital businesses. While we have the market's strongest collection of digital businesses with great clients and significant revenues, it would be fair to say that prior to 2009 we struggled to make the margin we expected in this area.

2009 was the year that we finally achieved this. 2010 was a year when our digital businesses flourished and now are largely better than the STW benchmark across most internal measures.

2011 will see a major push on our technology strategy. We instituted an award for most improved business across the six pillars of the dashboard and I'm thrilled to say in 2010 this award went to one of our digital businesses, Alpha Salmon. The team at Alpha Salmon recorded significant revenue and profit growth, improved the efficiency of their business tenfold, were a great partner across the group, won some blue chip client assignments, and did some amazing work.

One of my passions as CEO of the group is how we can display better Partnership. As I've said before, this is not about cross-selling – it's about collaboration for everyone's benefit. Ours, our clients, and our consumers. I see the power of better collaboration across our group every day. Sadly, I also see the reverse. I can assure you that open partnership, two way streets, and sharing and receiving works much better for everyone.



In 2010, DTDigital won our Partnership award. DTDigital embraced the spirit of partnership and more importantly have taken leadership of digital initiatives. Their willingness to partner and help at all levels made them an outstanding example for the rest of the group.

At the end of the day, we at the parent company and you as the shareholders are most focused on Performance and delivery. It is the 'bottom line' pillar of our dashboard. A consistently outstanding business in the STW portfolio is The Brand Agency. Quite rightly they took away the Performance award for the second year running. Ken James and his team wrote the book on delivery, and are again worthy recipients.

The ultimate accolade is Business of the Year. This is judged against all six pillars. In 2010 we had a very long and strong finalist list, but in the end there was little doubt who should win: Lawrence Creative Strategy.

Lawrence Creative Strategy had a stellar 2010. They won a lot of new business, worked on big important campaigns, partnered across the group with multiple companies, were an outstandingly professional outfit, had zero staff turnover and delivered a fantastic financial result to the group. Neil and his team exemplified perfectly what can be achieved when you put the right people around a problem or opportunity. Congratulations Neil on a fantastic 2010.

That wraps up what was a great 2010 for the STW Group. I have mentioned only a few of our companies and just a few of our many victories, but it is a year of which I feel we can all be proud.

A huge amount of the thinking and the heavy lifting we achieve as a group is shouldered by our COO, Chris Savage. Chris has again in 2010 shown himself to be the ultimate executive. We would not have achieved anywhere near our success without him.

My thanks also go to our board of directors. They have been supportive, collegial, and most importantly encouraged us to look beyond the day-to-day and keep setting a bigger and better course for STW. Thank you all.

All the great news and results in this letter do not mean that we will rest. 'Divine discontent' has been a key tenant of this business since I started with it 18 years ago. It will remain at our core.

2011 looms as a pivotal year for STW. We are a leaner, smarter, more capable business. We will continue to build on our rock solid base as we expand both here and in new markets.

We are more confident than ever that our purpose and passion of 'Powering growth through ideas and creativity' is the correct path and entirely within reach.

2011 will not be without significant challenges but we face them with confidence. We have the people, the companies, and the clients to succeed.

Thanks,

Mike Connaghan
Chief Executive Officer



The financial focus in 2010 was all about delivering strong cashflow, debt reduction and the refinance of our banking facilities to underpin our capital position and build a platform for future growth.

We have delivered on all fronts; achieving record operating cashflow, seeing our net drawn debt more than halve over the year whilst funding our earnout program and significantly increasing shareholder dividends, and successfully closing the renewal of our banking facilities on favourable terms and with a very supportive banking syndicate.



Lukas Aviani
Chief Financial Officer
STW Group

At the STW Group we are determined to retain and attract the best talent in the business.

This year, we asked some of our brightest stars from across the group to tell us about the achievement they were most proud of from 2010.

On the following pages you'll find their stories.



Our “Revenue Racer” initiative was all about winning new revenues and growing market share. More than 1,000 executives were trained on driving pipeline, winning pitches, super-pleasing and growing existing clients and -quite simply- beating the competition. We had a great revenue growth year.

★ **Chris Savage**
Chief Operating Officer
STW Group



WHO WE ARE

STW Group is one of the world's largest and most successful marketing services companies.

The group is made up of 70 operating companies that work across every marketing communications, content and production discipline:

- Advertising
- Media
- Insights and research
- Branding
- Public relations and government relations
- Brand activation
- Specialist communications.

Each of our companies is a force in its own right, a leader in its discipline, and plays an important role in STW's overall portfolio.

Our companies are entrusted with building and growing many of the world's biggest brands, by the world's largest companies.

Our companies unearth new insights and ideas that can change a business model or take a brand from good to great.

Our companies use their mastery of the latest technology to transform the way brands interact with their audiences and customers.

Our companies employ over 2,300 of the best minds in the business, in Sydney, Melbourne, Brisbane, Adelaide, Canberra, Perth, Auckland and Wellington, with recent expansion to London, New York and Hong Kong.

Our companies are the driving force behind our growth; they are home to the most capable and impressive minds in our industry, and their collective ability is unbeatable.



OUR COMPANIES





Last year, I had the opportunity to work with Brand Australia. Their goal is to use Australia's many achievements to position us as a vibrant, inclusive, confident and future-focused nation. We provided insight into how Australia is perceived overseas and the opportunities available to improve our reputation. Senior management have used our recommendations in their planning and I have been asked to speak on Brand Australia's behalf at the upcoming Australian Chambers Business Congress.

★ **Oliver Freedman**
General Manager, AMR



My proudest moment in 2010 was seeing ONE20 continue to grow and evolve. We added video production to our already successful photography business, we significantly increased the size of our Port Melbourne studio, and we're working hard to launch ONE20 Sydney. Tapping into the massive demand for online video content and low cost TVCs, we are expecting growth in 2011.

★ **David Fleer**
Managing Director, One20



GenerationOne is a movement to bring all Australians together, to end the disparity between indigenous and non-indigenous Australians in one generation.

We wanted GenerationOne's message to be heard. To do this we needed to capture the attention of the nation. We spoke to media companies all around Australia with a bold request. We wanted 2 minutes of air time. For free. Not for an ad, but for an address to the nation. With donated space from Newspaper and online media companies, the address was announced but who was to speak was kept top secret. Through Twitter we monitored the buzz and speculation. Then on Sunday night (October 24) for the first time ever, a non-political address was broadcast across all free to air channels. Madelene Madden, a 13 year Indigenous girl spoke to 6 million Australians about the future of non-indigenous Australians.

The response was amazing in the first 24 hours the address attracted over 2.4 million hits to the website and in the week that followed 15,000 new supporters joined the movement. For days it swamped newspapers and the airwaves. With \$4 million worth of free air time, and the unprecedented and historic attention of 6 million Australians, GenerationOne forced the nation to stop and listen.



Neil Lawrence
Lawrence Creative



WHAT WE DO

There is – as always – much talk of change in the marketing business.

Change was a hot topic in the 1950s when a new technology called television came along and created the first mass audiences. Change was a hot topic in the 1980s when the rise of direct marketing conjured a new way for brands to target and reach their customers. Change was a hot topic in the 1990s when the internet came along and heralded a new era of media.

Yes, change in our business is constant and unyielding. Yes, consumers are in control more than ever before. Yes, media is fragmenting and multiplying. Yes, audiences and brands are finding new ways to engage with one another. Yes, business models are being shaped and transformed by new technologies.

But we at STW are constantly reminded of the essential, eternal truths of our business. The undying principles of communication that were true in the time of cave paintings and will continue to be true a century from now.

The power of stories is greater than ever.

The value and importance of brands are greater than ever.

The need for brands to make brilliant products that customers love is greater than ever.

The need for companies to live up to the promises they make is greater than ever.

The importance of having the right message to the right audience at the right time in the right place is more important than ever.

Great companies still want to connect with audiences.

Great brands still want to speak with a clear voice.

Great research still needs to provide sharp insights.

Great packaging still needs to be designed well.

Great strategists understand that media is and has always been social.

Great advertising still needs to linger in the consciousness of a consumer.

Great marketers still need to understand what their customers are thinking.

That's what we do – and have always done.

What has changed is the way we do it.

Of course, we constantly seek new, innovative, disruptive ways to do it. Every day, our people find new approaches and ideas that keep us ahead of the trend and our clients ahead of their competitors.

But we never lose sight of where we've come from and the invaluable lessons we've picked up along the way.



WHY WE EXIST

Our purpose is simple. We exist to help our companies be the best they can be.

To make sure that the measure of the Group's success is greater than the sum of its individual parts.

As we've grown, our operating businesses have increasingly looked to us for support, guidance and structure. Together, we have grown an esprit de corps across the Group that sets us apart from our competitors – driving our growth, culture and willingness to collaborate.

We have completed our evolution from holding company to parent company, today offering our companies the support they need to unlock the best of their potential.

We provide essential operational and financial discipline through our '6 Star Dashboard™', giving the heads of our businesses confidence in their future plans and feedback on their current performance. This helps each of our leaders keep a firm eye on the possibilities of tomorrow as well as the realities of today.

We provide access to the 'STW Brains Trust' – a collective of the most brilliant and experienced thinkers in our industry. The best of the best. This team is available to any of our companies, be they a two person start-up or a 600 strong machine. It represents an invaluable competitive advantage for our group, our companies and our clients.

We provide world-leading training and professional development through our SPUR™ program. Over 800 of our staff took SPUR™ courses in 2010, and even more will in 2011. The feedback we receive from these courses is consistently positive and shows the great value they bring. SPUR™ plays a vital role in keeping our people motivated and learning.

We provide programs such as '360 Path to Growth™' and 'High Potentials', which make sure that we are getting the very best out of our very best talent. These programmes ensure that we retain, stretch and grow the people who make our businesses great.

Finally, like any good parent, we provide our businesses with hard-won wisdom, with a safety net when one is needed, with the confidence to make big plays and tough calls, and with the reassuring knowledge that we will stand by them through good times and bad.



A real high point for me in 2010 was being commissioned to rebrand Australand. The project has touched every part of the business and is reshaping a leading Australian company. It's demonstrated to me the power and influence of the work we do.



Genny Chambers
Managing Director, Yello



In 2010, Cannings advised on transactions worth more than \$40 billion. It was ranked 4th in the Asia-Pacific and 15th globally, by deal value, according to M&A intelligence service, mergermarket. Cannings advised AMP during its \$14 billion takeover of AXA APH and the Canada Pension Plan Investment Board during its \$3.2 billion takeover of Intoll.

★ **John Hurst**
Managing Director, Cannings



Of the many things our Neo@Ogilvy team achieved in 2010, the one I'm most proud of is that we doubled our revenue during the year. This great result came from much hard work expanding the scope of our existing relationships, leveraging the Ogilvy network, and building new offerings like search, performance and social media marketing.

★ **Penny Davy**
Chief Strategy Officer, Ogilvy Sydney



2010 was a great year for STW's retail offering. We developed our capabilities in field marketing and customer experience through a joint venture with South African experts The Smollan Group. Through this joint venture we acquired STW companies QNT and Feedback ASAP.

We have also established the STW Retail Cluster, bringing together the sharpest minds in STW to evolve and expand our retail offer. Already, we have had success in tapping into new opportunities and providing better solutions for our clients.



John Nicholl
Practice Director – Retail, STW



2010 was a year of growth and change with many highlights. One that I'm particularly proud of was securing the Chandon business owned by LVMH. Since winning this account, we've developed a compelling brand proposition and some truly great integrated work. Look out for it in 2011!



Alex Baker
Group Account Director,
The Brand Shop



The launch of the next generation check-in for Qantas was definitely a highlight. Working closely with the Qantas design team, we not only created the new cards we worked on the roll-out and digital launch of the new experience. Considering the roll-out happened during the A380 issues the strength of the direct marketing and on-line tutorials were outstanding to customers and made an amazing impact on customers.

★ **Stuart O'Brien**
Ogilvy



I'm most proud of our innovation in creating a ground-breaking service delivery model among our government relations consulting firms in the last year. STW Group's "family" of specialist politically-aligned firms allows us provide the highest level of insight and cut-through for our clients but also ensures a seamless transfer from one firm to another when there's a change in government or client needs. And STW's still able to offer the best traditional bi-partisan government relations offering, too. Talk about client focus! That's something to be proud of.

★ **Justin Di Lollo**
Hawker Britton



Releasing any piece of work is always nerve wracking. So to receive such a positive response to 'Jazz Packing' was fantastic. After injecting my all into the project, it was great to know that the public loved it too. Picking up some shiny little mementoes and receiving a write-up in New York Magazine, simply iced the cake for my 2010.

★ **Emma Park**
Copywriter, DTDigital



I have two proudest moments in 2010 – the first was starting STW's specialist mobile company AppCast, and the second was watching the strength of mobile commerce in full swing as the TAB Sportsbet iPhone app overtook the Facebook app in terms of popularity on Melbourne Cup day.

★ **Mike Boyd**
Managing Director, AppCast



We have had a journey of our incredible growth over the past few years. Through this, it has been important that we maintain the spirit and sensibility that we were founded on: people, culture and creativity. 2010 was about hiring guns, actively growing our talent, shaking up the way we work and enjoying it all along the way. We've amplified our performance and product and we've successfully maintained the momentum of great morale and work that we've always been known for. Who said that Moon magic had its limits?

★ **Linda Jukic,**
Creative Director, Moon



WORK FROM 2010

Our companies' work from 2010 strongly reflects this philosophy.

These are only a few examples from many of the brilliant work our 70 companies and 2,300 people were involved with through the year. They reflect the diversity, the value and the importance of the work we do.

At STW, we rallied a city behind the most important development that's happened in Sydney in a generation – Barangaroo.

Lawrence Creative Strategy worked with the mining industry to change the course of Australian politics, when the introduction of the mining tax threatened the industry's future.

DTDigital created Honda's 'Jazz Packing' campaign, which spread through the internet like wildfire and received over one million views on YouTube.

Designworks helped Air New Zealand revolutionise the travelling experience, gaining worldwide acclaim for the airline's 'cuddle class' innovation.

JWT developed the brilliant 'Summer Smugglers' work for LifeSavers, saving Australians from embarrassment at the beach and taking its place as the most successful LifeSavers campaign in over 20 years.

Moon was appointed to the global HTC agency roster, further building on its international growth and success.

Assignment Group evolved the "100% Pure New Zealand" campaign, communicating with potential visitors at a more personal and emotional level with great success.

Ikon revolutionised the real estate category by creating a unique end-to-end property search, financing and advice tool for Commonwealth Bank.

OgilvyOne developed and launched Qantas's new in-flight entertainment system and technology platform, helping our national airline keep pace with tough competition from foreign competitors.





2010 proved we could do great integrated work when we collaborate. The 55 Days of Christmas campaign for Telstra is proof of that. Early creative collaboration saw the digital component become the heart of the campaign, and collaboration within the STW companies saw people pitching in to help bring our ideas to life.



Chris James
Ogilvy Interactive



My proudest moment from 2010 was Moon being appointed to the global HTC advertising account. As a small Australian creative shop, it is an incredible achievement to go up against the big global agency networks – Saatchi & Saatchi Singapore, DDB Hong Kong, and BBDO Asia Pacific – and win. To know that we've stood out against the best of the best is something we're all incredibly proud of.

✦ **Anouk Darling**
Chief Executive Officer,
Moon Communications Group



Junior's proudest achievement wasn't winning B&T Queensland Agency of the Year. Or the new business wins including Bank of Queensland, Brisbane City Council and Griffith University that suggested a coming of age. It was how our guys behaved during the flood. Professional, diligent, compassionate, caring and a credit to STW.

★ **Russell Vine**
Managing Director, Junior



Winning new business without a pitch is always good. When it's truly integrated, it's awesome. Within a month of our relationship with Hairhouse Warehouse we had OgilvyOne and Ogilvy PR appointed on a retainer and Badjar Ogilvy, Designworks and DTDigital doing project work. Not bad.

★ **Catherine Graham**
Head of Direct, OgilvyOne



WHO WE EMPLOY

What began in the 1950s as an industry made up of 'creative people' and 'account people' is barely recognisable in today's marketing industry.

Today, we have coders working alongside copywriters. We have data analysts working alongside directors. We have strategists working alongside server engineers. Only a decade ago, it would have been unimaginable that many of these roles would exist within our group, much less be working side by side on the same client brief.

We place great value on the diversity of our people, our companies and their capabilities. This diversity is vital in allowing us to unlock new client budgets, engage with audiences and consumers in new ways, and stay ahead of our competitors in developing new products and services.



Expanding our New Zealand based business to open an office in Australia was a great highlight for us throughout 2010, whilst we've always chosen to grow carefully and selectively, by working trans-Tasman with some of our clients, it has opened many doors for further opportunities and significant difference in our clients' fortunes.

★ **Zoe Halford, Account Director,
Assignment Group**



One of my highlights from 2010 was making the move from STW company Ogilvy Melbourne to the STW Group head office. Working for the parent company has been an incredible experience – helping our operating companies win new business, reporting on the latest trends and innovations, and developing strategies for major clients.

★ **Alex Campbell**
STW Group



IN CONCLUSION



2010 was a great year for STW. We believe we have the talent and the clients to ensure our return to growth continues in 2011 and beyond.





Joining Plush Films as Executive Producer was a real highlight of 2010 for me. My vision for Plush is a one-stop shop where agencies and clients can get all their production needs under the one roof. At Plush I am proud to lead a young team of producers, directors, editors, musician & sound designers – who are dedicated to producing world-class advertising.

★ **George Saada**
Plush



One of our highlights from the year was winning the Supreme Award at the 2010 Vero 'Excellence in Business Support Awards'. The awards recognise businesses that have achieved for their customers despite the challenges of the very difficult business environment. Given the high calibre of finalists for the Vero Awards, we were understandably delighted to win the big one. We capped off the year with 20 Best Awards in the New Zealand Designers Institute Annual Awards. Very rewarding.

★ **Sven Baker**
Designworks



Created to launch a new insurance product that rewards drivers who don't claim, "What about me?" captured the insight that good drivers often felt hard done by when bad drivers who made lots of claims paid the same premiums. Armed with Swedish backpackers, a tweeting bloke and our everyman hero, Advertising awareness hit a record high of almost 75%, opportunity calls increased 11.04% year on year and new business policies written increased by 15.86%.

★ **Michael Knox**
Executive Creative
Director, Badjar Ogilvy



In 2008, it was grow or die, so we decided to take Massive global. In 2010, after two years of relentless pitching, we achieved our goal, with 90% of revenue now offshore. We also launched a busy London office, securing clients like BT, BBC, FIVE, SKY, Emirates (UAE), Comcast (US) – and still managed to grow revenue by 92% and profit by 199% in 2010.

★ **Ron Downey**
Managing Director, Massive



Looking back on 2010, we did a lot of fantastic work across our team with many different clients facing a range of marketing issues. One project that was a definite highlight is our work with ING Australia. They were approaching a challenging time as they prepared for the split from ING Direct (due to a change in ownership). Our job was to define what their new brand "OnePath" should be all about, how they could best connect with both existing and new customers, as well as how to communicate the name change and their new positioning in a clear and motivating way in market. It was a very rewarding project for us, as the insights and strategy we provided were used across the business to help establish this new brand in the Australian market.

 **Melissa Carey**
Added Value



BOARD OF DIRECTORS



ROBERT MACTIER *BEC MAICD* – Independent Non-executive Chairman

Mr Mactier was appointed as a Director of STW in December 2006 and Chairman with effect from 1 July 2008.

Mr Mactier is a consultant to the Investment Banking division of UBS AG in Australia, a role he has held since June 2007. He has extensive investment banking experience in Australia, having previously worked for Citigroup, E.L. & C. Baillieu and Ord Minnett Securities between 1990 and 2006. During this time, he was primarily focused on the media and entertainment and private equity sectors and initial public offerings generally. Prior to these roles, he worked with KPMG from 1986 to 1990 during which time he qualified as a Chartered Accountant.

Mr Mactier is also a Non-executive Director of Melco Crown Entertainment Limited, where he is a member of their Compensation Committee and Nominating and Corporate Governance Committee.

He is a Non-Executive Director of Aurora Community Television Limited.

He is a member of the Audit and Risk Committee.



MICHAEL CONNAGHAN *BA* – Chief Executive Officer and Executive Director

Mr Connaghan was appointed as a Director of STW in July 2008.

After graduating from Charles Sturt University, Mr Connaghan commenced his advertising career, winning a coveted Australian Federation and Advertising Graduate Scholarship.

After spending his first four years as a copywriter at Clemenger BBDO Sydney, Mr Connaghan travelled the world. He joined John Singleton Advertising in 1993. In 2001, Mr Connaghan moved to the listed holding company, STW Communications Group Limited, as Managing Director of diversified companies.

Mr Connaghan joined JWT in January 2004 as Managing Director of Australia and New Zealand, until his move back to STW and his appointment as Chief Executive Officer in January 2006.



RUSSELL TATE *BCOM (ECON)* – Deputy Chairman and Non-executive Director

Mr Tate joined the Company in 1987 and was appointed Managing Director in 1992 and Group Managing Director of Singleton Group Limited in 1997. He served as Chief Executive Officer of STW between 2001 and 2005 and was appointed Executive Chairman in January 2006. He remained in that role until June 2008 when he stepped down to Non-executive Deputy Chairman.

Mr Tate is also Executive Chairman of Macquarie Radio Network Limited and Chairman of Central Coast Stadium Pty Limited.

He is a member of the Remuneration and Nominations Committee.



ANNE KEATING – Independent Non-executive Director

Ms Keating was appointed as a Director of STW in 1995.

Ms Keating is currently a Director of Goodman Group, Ardent Leisure Group Limited, the Garvan Institute of Medical Research, ClearView Wealth Limited and REVA Medical Inc. Ms Keating is also a member of the Advisory Council of RBS Group (Australia) Pty Limited, a Trustee of Centennial Parklands and Moore Park Trust and a Governor of the Cerebral Palsy Foundation. Her former boards include Insurance Australia Group Limited, NRMA, the WorkCover Authority of NSW, the Tourism Task Force, Spencer Street Station Redevelopment Holdings Limited and the Victor Chang Cardiac Research Institute. Ms Keating was the General Manager of Australia for United Airlines from 1993 to 2001.

She was a member of the Remuneration and Nominations Committee during 2010.





★ **PAUL RICHARDSON BA ACA MCT – Non-executive Director**

Mr Richardson was appointed as a Director of STW in 1999.

Mr Richardson is currently a Director of WPP plc, a Non-executive Director of Chime Communications plc, a Non-executive Director of CEVA Group plc and serves on the British Airways Global Travel Advisory Board. Mr Richardson joined WPP in 1992 as Director of Treasury and has been Group Finance Director since 1996 (responsible for the group's worldwide finance function). He graduated from the University of East Anglia in 1980 and joined KPMG in London where he gained his Chartered Accountancy qualifications and was a prize-winner in the Association of Corporate Treasurers exams.

Mr Richardson also spent three years with SmithKline Beecham, and then six years with Hanson as Assistant Treasurer. Mr Richardson is a Chartered Accountant and member of the Association of Corporate Treasurers.



★ **IAN TSICALAS BCOM BA – Independent Non-executive Director**

Mr Tsicalas was appointed as a Director of STW in November 2007.

Mr Tsicalas was Managing Director of Australian Discount Retail Pty Limited until May 2007. Prior to this, Mr Tsicalas was Chief Executive of The Warehouse Group Australia and a Director of The Warehouse Group Limited. Mr Tsicalas was also previously Managing Director of Commander Communications Limited and Howard Smith Limited.

Mr Tsicalas is Independent Non-executive Chairman of Oceania Capital Partners Limited and a Non-executive Director of iSOFT Group Limited.

He is a member of the Audit and Risk Committee and Chairman of the Remuneration and Nominations Committee.



★ **GRAHAM CUBBIN BECON (HONS) – Independent Non-executive Director**

Mr Cubbin was appointed as a Director of STW in May 2008. Mr Cubbin was a senior executive with Consolidated Press Holdings ("CPH") from 1990 until September 2005, including holding the position of Chief Financial Officer for 13 years. Prior to joining CPH, Mr Cubbin held senior finance positions with a number of major financial companies including Capita Finance Group and Ford Motor Company.

Mr Cubbin is a Director of Challenger Financial Services Group Limited, Bell Financial Group Limited, White Energy Company Limited and McPherson's Limited and serves on the Audit Committee for each of these companies.

He is Chairman of the Audit and Risk Committee.



★ **PETER CULLINANE MBA – Executive Director**

Mr Cullinane was appointed as a Director of STW in June 2010.

A respected force in global advertising, Mr Cullinane has led the development of some of New Zealand's most iconic brands, applying strategic and creative thinking on a local and international scale. His New Zealand success led him to become Chief Operating Officer, Saatchi & Saatchi Worldwide. Since returning to New Zealand and establishing Assignment Group Limited, Mr Cullinane has specialised in providing strategic advice to a wide range of New Zealand and international clients.

Mr Cullinane is a Director of Assignment Group New Zealand Limited and Chairman of The Antipodes Water Company Limited. Mr Cullinane is a Director of SKYCITY Entertainment Group Limited and is a member of their Remuneration Committee and Governance and Nominations Committee.



★ **KIM ANDERSON – Independent Non-executive Director**

Ms Anderson was appointed as a Director of STW in November 2010.

Kim Anderson is a Director of Carsales Limited, Chief Executive of The Reading Room (thereadingroom.com) a community/social networking site for readers, a Fellow of the Sydney University Senate and a former Director of The Sax Institute. Ms Anderson has more than 25 years' experience in various advertising and media executive positions within companies such as Southern Star Entertainment, Publishing and Broadcasting Limited and Ninemsn.

She is a member of the Remuneration and Nominations Committee.



DIRECTORS' REPORT

Your Directors present their report on the consolidated entity consisting of STW Communications Group Limited ("Company") and the entities it controlled at the end of, or during, the year ended 31 December 2010 (collectively the "STW Group", the "Group" or the "consolidated entity").

DIRECTORS

The following persons were Directors of the Company during the whole of the financial year and up to the date of this report (unless otherwise indicated):

Robert Mactier (Chairman)

Russell Tate (Deputy Chairman)

Anne Keating (resigned 10 February 2011)

Paul Richardson

Miles Young (resigned 11 February 2010)

Ian Tsicalas

Graham Cubbin

Michael Connaghan

Peter Cullinane (appointed 3 June 2010)

Kim Anderson (appointed 10 November 2010).

Particulars of Directors' qualifications, experience and directorships in other listed entities are set out on pages 34 and 35 in this Annual Report.

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the year were advertising and diversified communications operations. The Company provides advertising and communications services for clients through various channels including television, radio, print, outdoor and electronic forms. There have been no significant changes in the nature of those activities during the year.

CONSOLIDATED RESULTS AND REVIEW OF OPERATIONS

The statutory profit attributable to members of STW Communications Group Limited for the 2010 year was \$38.7 million, up 77.5% (2009: \$21.8 million).

The Company's underlying profit was \$38.7 million, up 17.0% (2009: \$33.1 million).

For the year ended 31 December 2009, the statutory profit for the STW Group was impacted by a number of significant items. There were no significant items reported in 31 December 2010.

STW Group has capitalised on improved trading conditions in 2010 and we have seen a pleasing return to growth. The improved financial performance in 2010 has been driven entirely by organic growth and is a reflection of the strength and quality of our businesses, market share gains, the talent and commitment of our people and the increasing confidence amongst our client base.

	2010 \$million	2009 \$million	Change
Total revenue (including share of net profits from jointly controlled entities)	320.6	284.1	
Underlying EBITDA	80.4	73.7	
Net profit after tax before elimination of non-controlling interests	49.5	31.7	
Non-controlling interests	(10.8)	(9.9)	
Statutory profit	38.7	21.8	77.5%
Significant items	–	(11.3)	
Underlying profit	38.7	33.1	17.0%
Free cash flow	75.2	66.7	
Cash	43.8	42.0	
Debt	77.3	113.6	
Net debt	33.5	71.6	
	Cents per Share	Cents per Share	
EPS - statutory profit	10.8	7.3	
EPS - underlying profit	10.8	11.1	

A reconciliation of the Company's statutory and underlying profit and an analysis of the significant items (after tax and non-controlling interests) impacting the Company's results are set out below:

	2010 \$million	2009 \$million
Statutory profit	38.7	21.8
Impairment of assets and loss on sale of non-current assets	–	11.3
Underlying profit	38.7	33.1



CASH, GROSS DEBT AND FACILITIES

As at 31 December 2010, STW's cash and gross debt balances were \$43.8 million (31 December 2009: \$42.0 million) and \$77.3 million (31 December 2009: \$113.6 million) respectively.

The Group has consolidated its financial position during 2010. Profits are underlined by strong cash flow and are supported by continued improvement in working capital. This has enabled STW to reduce net debt at 31 December 2010 to \$33.5 million (31 December 2009: \$71.6 million).

STW has total estimated earnout liabilities of \$42.6 million as at 31 December 2010 (31 December 2009: \$59.5 million). Approximately 60% of our existing earnout liabilities will be paid within the next 12 months. STW remains comfortable with its capacity to service our remaining earnout liabilities given their quantum and payment caps in place. Earnout liabilities will be funded through a strong balance sheet, existing debt facilities and free cash flow.

RENEWAL OF BANKING FACILITIES

The Company signed new bank facilities in December 2010 and now has access to debt facilities totalling \$174.2 million (of which \$77.3 million is drawn). Of these facilities, \$4.2 million matures in June 2011 and \$170.0 million matures in January 2014.

DIVIDENDS

Dividends paid to members of the Company during the year were as follows:

	Cents per Share	\$million	Franking
Dividends paid in the year on ordinary shares			
Final 2009	2.0	7.2	100%
Interim 2010	2.3	8.2	100%

In addition to the above dividends, since the end of the financial year, the Directors have recommended the payment of a fully franked ordinary dividend of \$15,301,000 (4.2 cents per fully paid ordinary share) payable on 21 April 2011.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the nature of the Group's principal activities during the year.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Other than the significant items outlined in Note 39 to the financial statements, there has not arisen, in the interval between the end of the financial period and the date of signing of this Directors' Report, any item, transaction or event of a material or unusual nature which, in the opinion of the Directors has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future periods.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Disclosure of information regarding likely developments in the operations of the consolidated entity in future years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

DIRECTORS' MEETINGS

The number of meetings of Directors (including meetings of committees of Directors) held during the year and the number of meetings attended by each Director were as follows:

	Directors' Meetings		Audit and Risk Committee Meetings		Remuneration and Nominations Committee Meetings	
	Attended	Held*	Attended	Held*	Attended	Held*
Robert Mactier	9	9	3	3	–	–
Russell Tate	8	9	–	–	3	3
Anne Keating	9	9	–	–	3	3
Paul Richardson	5	8	–	–	–	–
Miles Young	–	1	–	–	–	–
Ian Tsicalas	9	9	3	3	3	3
Graham Cubbin	9	9	3	3	–	–
Michael Connaghan	9	9	–	–	–	–
Peter Cullinane	5	5	–	–	–	–
Kim Anderson	1	1	–	–	–	–

* Reflects the number of meetings the Director was eligible to attend during the time the Director held office during the 2010 year.



DIRECTORS' REPORT (CONTINUED)

	Balance as at 1-Jan-10	Acquisitions	Disposals	Balance as at 31-Dec-10	Post year-end acquisitions	Post year-end disposals	Post year-end balance
Ordinary Shares							
Russell Tate	4,528,726	–	(3,000,000)	1,528,726	–	1,000,000	528,726
Paul Richardson	–	–	–	–	–	–	–
Robert Mactier	562,500	–	–	562,500	–	–	562,500
Ian Tsicalas	–	50,000	–	50,000	–	–	50,000
Graham Cubbin	–	100,000	–	100,000	–	–	100,000
Michael Connaghan	838,870	–	–	838,870	–	–	838,870
Peter Cullinane (appointed 3 June 2010)	4,500	–	–	4,500	–	–	4,500
Kim Anderson (appointed 10 November 2010)	–	–	–	–	–	–	–
Total	5,934,596	150,000	(3,000,000)	3,084,596	–	(1,000,000)	2,084,596

COMMITTEE MEMBERSHIP

As at the date of this report, the Company had an Audit and Risk Committee and a Remuneration and Nominations Committee. Members acting on the committees of the Board during the year and at the date of this report were:

AUDIT AND RISK COMMITTEE

Graham Cubbin (Chair)
Robert Mactier
Ian Tsicalas

REMUNERATION AND NOMINATIONS COMMITTEE

Ian Tsicalas (Chair)
Russell Tate
Anne Keating (resigned 10 February 2011)
Kim Anderson (appointed to the committee 10 February 2011).

ENVIRONMENTAL REGULATION AND PERFORMANCE

The consolidated entity's operations are subject to environmental regulation under Commonwealth and State legislation. These regulations do not have a significant impact on the consolidated entity's operations. The Board believes that the consolidated entity has adequate systems in place for the management of its environmental requirements and is not aware of any significant breach of those environmental requirements as they apply to the consolidated entity.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

The Directors of the Company and such other officers as the Directors determine, are entitled to receive the benefit of an indemnity contained in the Constitution of the Company to the extent allowed by the Corporations Act 2001, including against liabilities incurred by them in their respective capacities in successfully defending proceedings against them.

During or since the end of the financial year, the Company has paid premiums under contracts insuring the Directors and officers of the Company and its controlled entities against liability incurred in that capacity to the extent allowed by the Corporations Act 2001.

The terms of the policies prohibit disclosure of the details of the liability and the premium paid.

Each Director has entered into a Deed of Access, Disclosure, Insurance and Indemnity which provides for indemnity by the Company against liability as a Director to the extent allowed by the law.

There have been no indemnities given or insurance premiums paid during or since the end of the financial year for the auditors.

AUDITOR INDEPENDENCE

The Directors have received a declaration of independence from Stephen Holdstock on behalf of Deloitte Touche Tohmatsu, the auditor of STW Communications Group Limited as reproduced on page 40.



NO OFFICERS ARE FORMER AUDITORS

No officer of the consolidated entity has been a partner of an audit firm or a director of an audit company that is the auditor of the Company and the consolidated entity for the financial year.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of STW Communications Group Limited support and have adhered to the principles of corporate governance (as detailed in the Corporate Governance Statement which accompanies this report).

RISK MANAGEMENT

The Group takes a proactive approach to risk management. The Board has established a risk management policy for the oversight and management of risk and has delegated responsibility for reviewing risk, compliance and internal control Audit and Risk Committee. Management is ultimately responsible to the Board for the system of internal control and risk management within the business units. Details of risk mechanisms in place are detailed in the Corporate Governance Statement, which accompanies this report.

NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

Details of the amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 38 to the financial statements. The Directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in Note 38 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit and Risk committee, for the following reasons:

- all non-audit services have been reviewed to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principals relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, included reviewing or auditing the auditors own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

ROUNDING

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

REMUNERATION REPORT

The Remuneration Report is attached on page 41 and forms part of this Director's Report.

Signed in accordance with a resolution of the Directors:

Robert Mactier
Chairman
30 March 2011

Michael Connaghan
Chief Executive Officer



AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

The Board of Directors
STW Communications Group Limited
Ogilvy House
72 Christie Street
ST LEONARDS NSW 2065

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

DX: 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

30 March 2011

Dear Board Members

STW Communications Group Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of STW Communications Group Limited.

As lead audit partner for the audit of the financial statements of STW Communications Group Limited for the financial year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

Stephen Holdstock
Partner
Chartered Accountants
Sydney, 30 March 2011

Liability limited by a scheme approved under Professional Standards Legislation.

**Member of
Deloitte Touche Tohmatsu**



REMUNERATION REPORT

REMUNERATION REPORT

The information provided in the Remuneration Report has been audited as required by section 308(3C) of the Corporations Act 2001.

The information provided in the Remuneration Report outlines the Director and executive remuneration of the Group in accordance with the requirements of Corporations Act 2001 and its Regulations. For the purpose of this report, key management personnel ("KMP") of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director (whether executive or otherwise) of the parent Company.

Remuneration philosophy

The Board's Remuneration and Nominations Committee is responsible for making recommendations to the Board on Director and senior executive remuneration policy and structure.

The composition of the Remuneration and Nominations Committee consists of three directors. All Committee members are non-executive and the majority of Committee members are independent. Mr Ian Tsicalas is the Chair of the Committee. The functions of the Committee are set out in the Remuneration and Nominations Committee charter, which is available on the Company's website, www.stwgroup.com.au.

The responsibilities of the Committee in relation to remuneration are as follows:

- review overall remuneration policies and ensure they are in accordance with current best practice;
- determine the remuneration arrangements for the Chief Executive Officer, including his short and long term incentives;
- review and approve the Chief Executive Officer's recommendations for the other senior executives;
- set and review the performance targets for the Chief Executive Officer; and
- review and approve the recommended performance targets for other senior executives.

During the year, the Committee and Board took advice from independent external advisors to provide information on current best practice (including remuneration levels) for Director and executive remuneration. The Committee reviews this external remuneration advice in the light of the various individuals' performance. Where appropriate, the Chief Executive Officer attends Committee meetings to review and recommend remuneration levels for other senior staff.

EXECUTIVE REMUNERATION

Remuneration objective

The performance of the Group is dependent on the quality of its executives. The Company's remuneration objective is to attract, motivate and retain employees to deliver performance that is aligned with shareholders' interests.

Executive remuneration structure

In order to attract and retain high performing individuals, the Group has devised a remuneration policy that links performance to pay and a structure that offers the executive a mixture of:

- fixed remuneration; and
- at-risk, variable remuneration.

The Company's executive remuneration seeks to reward executives with a mix of remuneration proportionate with their position and responsibilities within the Group.

Remuneration levels are competitively benchmarked to ensure that executives are attracted to and retained by the Group. Remuneration is benchmarked against that of listed entities with similar market capitalisation, market segment and complexity to the Group.

Fixed remuneration

The objective of fixed remuneration is to provide a base level of remuneration which is appropriate to the executive's position and geographic location and is competitive to the market.

Fixed remuneration is determined with reference to available market data, considering the scope of the individual's role, and their position, responsibilities, performance and experience.



REMUNERATION REPORT (CONTINUED)

EXECUTIVE REMUNERATION (CONTINUED)

The fixed component of the executive Directors' and senior executives' salary may be split between base salary, superannuation or motor vehicle on a fully absorbed cost-to-company basis including fringe benefits tax, interest cost, amortisation and running costs.

Executives may also receive salary continuance insurance cover.

There are no other benefits offered at the expense of the Company.

There are no guaranteed base pay increases included in any senior executives' contracts.

Executive remuneration was reviewed on 1 July 2010 through the use of external remuneration consultants, using a comparator group selected on the basis of market capitalisation, annual revenues and profit.

At-risk remuneration

At-risk remuneration is provided through:

- short-term incentives; and
- long-term incentives – executive share plan.

Linking of performance with pay – at-risk remuneration

The level of at-risk remuneration is set by reference to competitive remuneration benchmarks and the amount of incentive awarded to an executive is linked to meeting STW Group and business unit financial performance objectives (generally based on underlying net profit after tax) ("NPAT"), along with individual performance objectives, both financial and non-financial.

- Non-financial measures include achievement of strategic goals, operational efficiencies, people management and execution of key initiatives. These measures are designed to ensure robust, long-term value is built.
- Long-term incentives are structured to encourage sustainable performance in the medium to long term. Performance conditions are measured and assessed over a period of three years.

The financial performance of the Company in key shareholder value measures over the past five years is shown below:

	2010	2009	2008	2007	2006
Underlying NPAT (\$million)	38.7	33.1	39.1	41.6	42.6
Earnings per share before significant items (cents per share)	10.8	11.1	20.2	21.0	21.5
Dividends per share (cents per share)	6.5	3.5	8.0	12.0	14.7
Share Price	\$1.06	\$0.74	\$0.72	\$2.28	\$3.11
*Total shareholder return ("TSR") (% per annum)	52.0%	7.6%	(64.9%)	(22.8%)	6.8%

* TSR comprises share price appreciation and dividends, gross of franking credits, reinvested in the shares.

Short-term incentives

STW Group's short-term incentives are provided in cash. The payment of the incentives depends upon the executive meeting financial and non-financial objectives set at the beginning of each year:

- at the beginning of each year, the Remuneration and Nominations Committee determines the maximum entitlements payable under the short-term incentive plan;
- an executive will generally receive between 50% and 75% of the maximum annual entitlement payable under the short-term incentive plan based on meeting business unit specific or Group financial targets. The financial targets are based on the business unit or Group achieving a NPAT target. The NPAT target is generally based on the business unit or Group budget, which is approved by the Board and the executive will be rewarded for performance between 100% and 105% of the NPAT target (at which point the maximum entitlement is received); and
- an executive will generally receive between 25% and 50% of the maximum annual entitlement payable under the short-term incentive plan based on meeting non-financial, personal objectives. The non-financial objectives are specific to each executive and are agreed between the executive and their manager. Non-financial measures include achievement of strategic goals, operational efficiencies, people management and execution of key initiatives. These measures are designed to ensure robust, long-term value is built.



SHARE-BASED COMPENSATION

Long-term Incentives

The Company has an executive share plan ("ESP") that is intended to support the achievement of the Group's business objectives by linking remuneration to improvements in the financial performance and value of the Company and aligning the interests of participating executives with those of shareholders. It aims to reward executives for creating growth in shareholder value.

Executive share plan

On 25 May 2004, the Company's shareholders approved the creation of an ESP. The ESP allows the Directors to allocate up to 5% of the ordinary issued shares in the Company to executives ("performance shares").

The ESP structure has been in operation since 31 December 2004.

The ESP is designed for the Chief Executive Officer, his direct reports and a wider group of senior executives whose performance is critical to the overall performance of the Group.

Participants in the ESP receive a percentage of their total fixed remuneration as an allocation of Company shares. The number of Company shares to which a participant is entitled will depend on the participant's role and responsibilities.

As at 31 December 2010, 6,652,333 (2009: 6,752,333) performance shares in the Company have been issued to the STW Executive Share Plan Trust. The trust holds the performance shares and all rights and entitlements attaching to the performance shares on the executive's behalf.

The table below represents the ESP plans currently in operation:

Grant date	Plan type	Performance period	Date vested and exercisable	Expiry date	Fair value per share at grant date
January 2009	Base Plan	2009-2011	1-Mar-12	1-Mar-13	\$0.55
February 2010	Base Plan	2010-2012	1-Mar-13	1-Mar-14	\$0.69
February 2010	Overperformance Plan	2010-2012	1-Mar-13	1-Mar-14	\$0.84
February 2011	Base Plan	2012-2013	1-Mar-14	1-Mar-15	\$1.20
February 2011	Overperformance Plan	2012-2013	1-Mar-14	1-Mar-15	\$1.20

Details of shares in the Company provided as remuneration to key management personnel of the parent entity and the Group are set out below:

	Number of shares granted during the year		Number of shares vested during the year	
	2010	2009	2010	2009
Director				
Mike Connaghan	1,068,750	–	–	420,000
Other KMP				
Chris Savage	534,375	450,000	–	60,000
Lukas Aviani	249,375	–	–	–

The assessed fair value at grant date of deferred shares granted to individuals is allocated evenly over the period from grant date to vesting date and the amount is included in the remuneration tables. Fair value at grant date are independently determined based on the market value of the shares at grant date.



REMUNERATION REPORT (CONTINUED)

EXECUTIVE SHARE PLAN OPERATION

The terms and conditions of the ESP plan are set out below.

Details of the performance shares issued to specified senior executives are outlined in the tables on pages 43, 45 and 111.

Performance shares	The trustee, CPU Plan Managers Pty Limited, holds the performance shares and all rights and entitlements attaching to the shares (including the right to any dividends declared) on the executive's behalf, subject to the terms of the Trust Deed establishing the ESP and the ESP Rules.
Performance conditions	The performance shares will vest and be transferred to the executives subject to meeting the performance conditions, as determined by the Remuneration and Nominations Committee.
Lapse of performance shares	Any performance shares for which the relevant performance condition is not satisfied will lapse. Any performance shares that do not vest over the performance period will be forfeited.
Acquisition price	The executives will not be required to pay for any performance shares granted under the plan.
Change of control	If a change of control or similar event occurs, the Board has the discretion to direct the trustee to determine that a portion of the performance shares will vest.
Forfeiture of performance shares	All performance shares granted to the executives under the plan will be forfeited if the executive resigns as an employee of the Group or is dismissed for cause.
Redundancy	If the executive ceases to be an employee of the Group by reason of redundancy, and at that time they continue to satisfy any other relevant conditions imposed by the Board at the time of the offer, then to the extent that the performance conditions are satisfied, the executive will receive a pro-rata entitlement to the performance shares.
Death, disability or other circumstances approved by the Board	If the executive ceases to be an employee of the Group by reason of death, disability or other reason with the approval of the Board, and at that time the executive continue to satisfy any other relevant conditions imposed by the Board at the time of the offer, then, to the extent that the performance conditions are satisfied, the executive will receive a discretionary entitlement to the performance shares.



PERFORMANCE CONDITIONS

The following performance conditions will apply to the performance shares issued to executives under the ESP: The number of performance shares granted to the executives that will vest, will be determined according to the extent that the performance conditions are satisfied.

SHARES GRANTED TO EXECUTIVES – 2009-2011 BASE PLAN

Performance condition - No. 1 - EPS performance condition

Vesting of 75% of the performance shares granted to the executives depends on growth in the Group's normalised EPS between the 2009 and 2011 calendar years (using the Group's normalised 2008 calendar year EPS performance as the base).

Normalised EPS is calculated on earnings adjusted for impairment of assets, profit or losses on sale of investments, write-offs, amortisation of unidentifiable and identifiable intangible assets and other non-recurring items.

EPS will be measured by the average compound annual growth ("CAGR") in the company's EPS ("EPS Growth Rate") between 2009 and 2011 and will vest in accordance with the table below:

EPS Growth Rate	% of performance shares subject to the performance condition that vest	% of total performance shares that vest
Less than 0% CAGR	Nil	Nil
0% CAGR	25%	18.75%
0% to 10% CAGR	Straight line pro-rata	Straight line pro-rata
10% CAGR or above	100%	75%

The Board believes that the performance condition relating to the EPS Growth Rate target is appropriate, rewarding executives for compound EPS Growth Rate of up to and in excess of 10%, given:

- the consensus EPS growth rates of listed entities of comparable size and market segment over the period that the performance conditions are being tested; and
- the executives receive a lower level of reward for lower EPS Growth levels.

Performance condition - No. 2 - TSR performance condition

Vesting of 25% of the performance shares granted to the executives depends on the STW Group's total shareholder return ("TSR") between 2009 and 2011 compared with the TSR performance of a comparator group of companies.

The TSR performance condition compares the Company's TSR ranking at 31 December 2011 (calculated using the average closing share price over the three months prior to that date) with the TSR performance of the companies in the comparator group over the same period.

TSR measures growth in shareholder value – essentially, movement in the share price plus dividends (assuming reinvestment) between 2009 and 2011.

Comparator group

The Company's TSR will be compared to the TSR of entities that were in the S&P/ASX All Ordinaries – Consumer Discretionary Index ("Comparator Group") as at the start date of the relevant Plan.

The Board chose this Comparator Group as it represented a broad base of companies whose operations face similar challenges to the Group.

TSR will be measured against the S&P/ASX All Ordinaries – Consumer Discretionary Index and shares will vest against the capital weighted percentile thresholds in the table:



REMUNERATION REPORT (CONTINUED)

PERFORMANCE CONDITIONS (CONTINUED)

TSR performance	% of performance shares subject to the performance condition that vest	% of total performance shares that vest
Less than 50th percentile	Nil	Nil
50th percentile	50%	12.5%
50th to 75th percentile	Straight line pro-rata	Straight line pro-rata
Above 75th percentile	100%	25%

Service condition

If the executive resigns as an employee of the Group or is dismissed for cause prior to the performance condition testing dates for the shares to vest, all performance shares granted to the executive under the plan will be forfeited.

Vesting

To the extent that the performance conditions are achieved, the performance shares will be transferred to executives on 1 March 2012. Any performance shares that do not vest over the performance period will be forfeited.

SHARES GRANTED TO EXECUTIVES – 2010-2012 BASE PLAN

Performance condition - No. 1 - EPS performance condition

Vesting of 75% of the performance shares granted to the executives depends on growth in the Group's normalised EPS between the 2010 and 2012 calendar years (using the Group's normalised 2009 calendar year EPS performance as the base).

Normalised EPS is calculated on earnings adjusted for impairment of assets, profit or losses on sale of investments, write-offs, amortisation of unidentifiable and identifiable intangible assets and other non-recurring items. The number of shares on issue for the consolidated entity as at 31 December 2009 will be used as the denominator for calculating EPS for the 2010-2012 plan.

EPS will be measured by the average compound annual growth in the Company's EPS ("EPS Growth Rate") between 2010 and 2012 and will vest in accordance with the table below:

EPS Growth Rate	% of performance shares subject to the performance condition that vest	% of total performance shares that vest
Less than 5% CAGR	Nil	Nil
5% CAGR	25%	18.75%
5% to 10% CAGR	Straight line pro-rata	Straight line pro-rata
10% CAGR or above	100%	75%

The Board believes that the performance condition relating to the EPS Growth Rate target is appropriate, rewarding executives for compound EPS Growth of between 5% and 10%.



Performance condition - No. 2 - TSR performance condition

Vesting of 25% of the performance shares granted to the executives depends on the STW Group's TSR between 2010 and 2012 compared with the TSR performance of a comparator group of companies.

The TSR performance condition compares the Company's TSR ranking at 31 December 2012 (calculated using the average closing share price over the three months prior to that date) with the TSR performance of the companies in the comparator group over the same period.

TSR measures growth in shareholder value – essentially, movement in the share price plus dividends (assuming reinvestment) between 2010 and 2012.

Comparator Group

The Company's TSR will be compared to the TSR of entities that were in the S&P/ASX All Ordinaries – Consumer Discretionary Index ("Comparator Group") as at the start date of the relevant plan.

The Board chose this Comparator Group as it represented a broad base of companies whose operations face similar challenges to the STW Group.

TSR will be measured against the S&P/ASX All Ordinaries – Consumer Discretionary Index and shares will vest against the capital weighted percentile thresholds in the table below:

TSR performance	% of performance shares subject to the performance condition that vest	% of total performance shares that vest
Less than 50th percentile	Nil	Nil
50th percentile	50%	12.5%
50th to 75th percentile	Straight line pro-rata	Straight line pro-rata
Above 75th percentile	100%	25%

Service condition

If the executive resigns as an employee of the Group or is dismissed for cause prior to the performance condition testing dates for the shares to vest, all performance shares granted to the executive under the plan will be forfeited.

Vesting

To the extent that the performance conditions are achieved, the performance shares will be transferred to executives on 1 March 2013. Any performance shares that do not vest over the performance period will be forfeited.



REMUNERATION REPORT (CONTINUED)

PERFORMANCE CONDITIONS (CONTINUED)

SHARES GRANTED TO EXECUTIVES – 2010-2012 OVERPERFORMANCE PLAN

Performance condition – EPS performance condition

The executive will have the opportunity to earn additional performance shares granted to the executive under the Overperformance Plan based on the growth in the Group's normalised EPS between the 2010 and 2012 calendar years (using the Group's normalised 2009 calendar year EPS performance as the base).

Normalised EPS is calculated on earnings adjusted for impairment of assets, profit or losses on sale of investments, write-offs, amortisation of unidentifiable and identifiable intangible assets and other non-recurring items. The number of shares on issue for the consolidated entity as at 31 December 2009 will be used as the denominator for calculating EPS for the 2010-2012 plan.

EPS will be measured by the average compound annual growth in the Company's EPS ("EPS Growth Rate") between 2010 and 2012 and will vest in accordance with the table below:

EPS Growth Rate	% of total performance shares that vest
Less than 10% CAGR	Nil
10% CAGR	20%
10% to 15% CAGR	Straight line pro-rata
15% CAGR or above	100%

The Board believes that the performance condition relating to the EPS Growth Rate target is appropriate, rewarding executives for compounded EPS Growth of between 10% and 15%.

Service condition

If the executive resigns as an employee of the Group or is dismissed for cause prior to the performance condition testing dates for the shares to vest, all performance shares granted to the executive under the plan will be forfeited.

Vesting

To the extent that the performance conditions are achieved, the performance shares will be transferred to executives on 1 March 2013. Any performance shares that do not vest over the performance period will be forfeited.

SHARES GRANTED TO EXECUTIVES – 2011-2013 BASE PLAN

Performance condition – No 1. – EPS performance condition

Vesting of 75% of the performance shares granted to the executives depends on growth in the Group's normalised EPS between the 2011 and 2013 calendar years (using the Group's normalised 2010 calendar year EPS performance as the base).

Normalised EPS is calculated on earnings adjusted for impairment of assets, profit or losses on sale of investments, write-offs, amortisation of unidentifiable and identifiable intangible assets and other non-recurring items.



EPS will be measured by the average compound annual growth in the Company's EPS ("EPS Growth Rate") between 2011 and 2013 and will vest in accordance with the table below:

EPS Growth Rate	% of performance shares subject to the performance condition that vest	% of total performance shares that vest
Less than 5% CAGR	Nil	Nil
5% CAGR	25%	18.75%
5% to 10% CAGR	Straight line pro-rata	Straight line pro-rata
10% CAGR or above	100%	75%

The Board believes that the performance condition relating to the EPS Growth Rate target is appropriate, rewarding executives for compounded EPS Growth of between 5% and 10%.

Performance condition - No. 2 - TSR performance condition

Vesting of 25% of the performance shares granted to the executives depends on the Group's TSR between 2011 and 2013 compared with the TSR performance of a comparator group of companies.

The TSR performance condition compares the Company's TSR ranking at 31 December 2013 (calculated using the average closing share price over the three months prior to that date) with the TSR performance of the companies in the comparator group over the same period.

TSR measures growth in shareholder value – essentially, movement in the share price plus dividends (assuming reinvestment) between 2011 and 2013.

Comparator group

The Company's TSR will be compared to the TSR of entities that were in the S&P/ASX All Ordinaries – Consumer Discretionary Index ("Comparator Group") as at the start date of the relevant plan.

The Board chose this Comparator Group as it represented a broad base of companies whose operations face similar challenges to the Group.

TSR will be measured against the S&P/ASX All Ordinaries – Consumer Discretionary Index and shares will vest against the capital weighted percentile thresholds in the table:

TSR performance	% of performance shares subject to the performance condition that vest	% of total performance shares that vest
Less than 50th percentile	Nil	Nil
50th percentile	50%	12.5%
50th to 75th percentile	Straight line pro-rata	Straight line pro-rata
Above 75th percentile	100%	25%

Service condition

If the executive resigns as an employee of the Group or is dismissed for cause prior to the performance condition testing dates for the shares to vest, all performance shares granted to the executive under the plan will be forfeited.

Vesting

To the extent that the performance conditions are achieved, the performance shares will be transferred to executives on 1 March 2014. Any performance shares that do not vest over the performance period will be forfeited.



REMUNERATION REPORT (CONTINUED)

PERFORMANCE CONDITIONS (CONTINUED)

SHARES GRANTED TO EXECUTIVES – 2011-2013 OVERPERFORMANCE PLAN

Performance condition - EPS performance condition

The executive will have the opportunity to earn additional performance shares granted to the executive under the Overperformance Plan based on the growth in the Group's normalised EPS between the 2011 and 2013 calendar years (using the Group's normalised 2010 calendar year EPS performance as the base).

Normalised EPS is calculated on earnings adjusted for impairment of assets, profit or losses on sale of investments, write-offs, amortisation of unidentifiable and identifiable intangible assets and other non-recurring items.

EPS will be measured by the average compound annual growth in the Company's EPS ("EPS Growth Rate") between 2011 and 2013 and will vest in accordance with the table below:

EPS Growth Rate	% of total performance shares that vest
Less than 10% CAGR	Nil
10% CAGR	20%
10% to 15% CAGR	Straight line pro-rata
15% CAGR or above	100%

The Board believes that the performance condition relating to the EPS Growth Rate target is appropriate, rewarding executives for compounded EPS Growth of between 10% and 15%.

Service condition

If the executive resigns as an employee of the Group or is dismissed for cause prior to the performance condition testing dates for the shares to vest, all performance shares granted to the executive under the plan will be forfeited.

Vesting

To the extent that the performance conditions are achieved, the performance shares will be transferred to executives on 1 March 2014. Any performance shares that do not vest over the performance period will be forfeited.

NON-EXECUTIVE DIRECTOR REMUNERATION

The remuneration policy for non-executive Directors is designed to remunerate them at market levels for their time, commitment and responsibilities. The Company is cognisant that it needs to attract and retain well qualified and experienced directors. In the light of the increased time and legal liability imposed upon directors arising from developments in corporate governance, corporate law and the expectations of shareholders generally, the Remuneration and Nominations Committee uses external advice along with available market information to set an appropriate level of external Director fees.

Non-executive Directors are remunerated by way of base fees and fees to the Chairmen of Committees (inclusive of superannuation). The level of fees paid is based on the scope of Director responsibilities and the size and complexity of the Group.

The Remuneration and Nominations Committee has set the aggregate remuneration at a level that provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

The ASX Listing Rules specify that the aggregate remuneration of non-executive Directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting in May 2010 when shareholders approved an aggregate remuneration of \$750,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure are reviewed periodically. The Committee consults external advisors as well as considering the fees paid to non-executive Directors of comparable companies when undertaking the review process.

Non-executive Directors who are not aligned with major shareholders receive a base fee of \$85,000 per annum (inclusive of superannuation).



The Chairman of the Board receives \$185,000 per annum (inclusive of superannuation). The remuneration reflects the additional responsibilities of the appointment.

An additional fee of \$15,000 per annum is paid to the Chairman of the Remuneration and Nominations Committee and to the Chairman of the Audit and Risk Committee. The additional remuneration reflects the additional responsibilities of the Committee Chairmen.

It is noted that WPP plc aligned Director, Paul Richardson is not remunerated as a Board member of the Company and does not receive any other financial or non-financial benefit as a member of the Company's Board. The Board is pleased to have access to the specialist skills and knowledge of Mr Richardson. It is the Board's view that the non-payment to Mr Richardson does not detract or diminish from the discharging of his responsibilities and obligations to all the shareholders of the Company.

No termination payments were made during the period. The non-executive Directors do not receive retirement benefits, nor do they participate in any incentive programs.

CONTRACTUAL ARRANGEMENTS – Chief Executive Officer

The Company's Chief Executive Officer, Michael Connaghan, has an employment contract with no fixed term of employment.

Mr Connaghan's appointment may be terminated by the Company in the following circumstances:

- without notice in the event of any act which detrimentally affects the Company such as dishonesty, fraud or serious or wilful misconduct in the discharge of his duties or persistent and material breach of the terms of his service agreement; or
- by providing Mr Connaghan with 12 months' notice in writing at any time or by 12 months' total fixed remuneration in lieu of notice paid by the Company plus a pro-rata payment of the annual short-term incentive and a pro-rated payment under the long-term incentive plan from the start of the plan to the end of the notice period.

Mr Connaghan may terminate his appointment by giving the Company six months' notice in writing at any time. The Company may at its option pay six months' fixed remuneration in lieu.

Senior executives and consultants

Senior executives have no fixed term of employment. Senior executives are entitled to a notice period of between three and six months or payment in lieu plus a severance payment.

In the case of redundancy, senior executives may also be entitled to receive a pro-rata entitlement to at-risk remuneration for the year during which termination occurs.

Senior executives who resign must provide between three and six months' notice or the Company may at its option pay between three and six months' fixed remuneration in lieu.

The Company may terminate the executives immediately with cause with payment of statutory entitlements only.

SUMMARY OF EXECUTIVE SERVICE AGREEMENTS

Remuneration and other terms of employment for the Chief Executive Officer and other key management personnel ("KMP") are formalised in service agreements. Key provisions of the agreements relating to KMP remuneration as at 31 December 2010 are set out below:

Name	Michael Connaghan	Chris Savage	Lukas Aviani
Position	Chief Executive Officer	Chief Operating Officer	Chief Financial Officer
Contract expiry date	Ongoing	Ongoing	Ongoing
Short-term incentive plan (maximum entitlement)	31 December 2009 - \$175,000	31 December 2009 - \$100,000	31 December 2009 - \$50,000
	31 December 2010 - \$300,000	31 December 2010 - \$150,000	31 December 2010 - \$100,000
Termination benefit (Company initiated)	12 months' notice	6 months' notice	6 months' notice
Termination benefit (employee initiated)	6 months' notice	6 months' notice	3 months' notice
Non-solicitation of personnel and clients – restraint of trade	12 months	6 months	12 months



REMUNERATION REPORT (CONTINUED)

DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL REMUNERATION AND OTHER DISCLOSURES

Key management personnel

The Directors of STW Communications Group Limited during the year ended 31 December 2010 were:

Name	Current Position
Non-executive Directors	
Robert Mactier	Independent Chairman
Russell Tate	Non-independent Director
Anne Keating (resigned 10 February 2011)	Independent Director
Ian Tsicalas	Independent Director
Graham Cubbin	Independent Director
Paul Richardson	Non-independent Director
Miles Young (resigned 11 February 2010)	Non-independent Director
Kim Anderson (appointed 10 November 2010)	Independent Director
Executive Directors	
Peter Cullinane (appointed 3 June 2010)	Managing Director of Assignment Group Limited (NZ) a subsidiary of STW Group and non- independent Director
Michael Connaghan	Chief Executive Officer

In addition, those also with authority and responsibility for planning, directing and controlling the activities of STW Communications Group Limited and its controlled entities during the year ended 31 December 2010 were:

Name	Current Position
Chris Savage	Chief Operating Officer
Lukas Aviani	Chief Financial Officer

Executives of the consolidated entity

The below executives represent the highest-paid executives in the Group along with Michael Connaghan and Chris Savage:

Name	Current Position
Neil Lawrence	Creative Director – Lawrence Creative Strategy
Stuart O'Brien	Chief Executive Officer – Ogilvy & Mather (Sydney)
Mike Daniels	Head of Planning – Ogilvy & Mather (Sydney)



The term 'remuneration' used in this Remuneration Report has the same meaning as the alternative term 'compensation', as defined in AASB 124 'Related Party Disclosures'. Details of remuneration provided to Directors, other KMP and executives of the consolidated entity and the Company for the 2010 year are as follows:

TABLE 1: KMP AND EXECUTIVE REMUNERATION FOR THE YEAR ENDED 31 DECEMBER 2010

	Short-term Employment Benefits		Post- Employment Benefits (a)	Total \$
	Cash Salary and Fees \$	Cash Profit Sharing and Other Bonuses \$	Super-annuation \$	
Non-executive Directors				
Robert Mactier	159,364	–	25,636	185,000
Russell Tate	211,307	–	6,193	217,500
Anne Keating (resigned 10 February 2011)	68,807	–	6,193	75,000
Ian Tsicalas	80,275	–	7,225	87,500
Graham Cubbin	82,569	–	7,431	90,000
Paul Richardson	–	–	–	–
Miles Young (resigned 11 February 2010)	–	–	–	–
Kim Anderson (appointed 10 November 2010)	10,997	–	990	11,987
Executive Directors				
Peter Cullinane (appointed 3 June 2010)	44,989	–	4,049	49,038
Michael Connaghan	685,170	87,500	14,830	787,500
Director remuneration for the consolidated entity and parent entity	1,343,478	87,500	72,547	1,503,525
Other KMP				
Chris Savage	575,000	100,000	25,000	700,000
Lukas Aviani (b)	285,170	40,000	14,830	340,000
Total non-Director KMP remuneration	860,170	140,000	39,830	1,040,000
Executives of the consolidated entity				
Neil Lawrence	693,769	–	56,231	750,000
Stuart O'Brien	477,642	100,000	22,358	600,000
Mike Daniels	438,857	42,500	14,143	495,500
Total remuneration for executives of the consolidated entity	1,610,268	142,500	98,732	1,845,500
Total remuneration for Directors, other KMP and executives of the consolidated entity	3,813,916	370,000	205,109	4,389,025

(a) There were no additional post-employment benefits provided during the year ended 31 December 2010.

(b) Lukas Aviani was appointed Chief Financial Officer with effect from 1 January 2010.

In addition to the remuneration outlined above, the total cost to the Company includes the amortised cost of the fair value of performance shares issued to the following executives:

- Michael Connaghan \$135,395, representing a total cost to the Company of \$922,895;
- Chris Savage \$68,186, representing a total cost to the Company of \$768,186;
- Lukas Aviani \$28,845, representing a total cost to the Company of \$368,845;
- Stuart O'Brien \$68,186, representing a total cost to the Company of \$668,168; and
- Mike Daniels \$28,845, representing a total cost to the Company of \$524,345.



REMUNERATION REPORT (CONTINUED)

DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL REMUNERATION AND OTHER DISCLOSURES (CONTINUED)

Details of remuneration provided to Directors, other KMP and executives of the consolidated entity and the Company for the 2009 year are as follows:

TABLE 2: KMP AND EXECUTIVE REMUNERATION FOR THE YEAR ENDED 31 DECEMBER 2009

	Short-term Employment Benefits		Post - Employment Benefits [a]	
	Cash Salary and Fees \$	Cash Profit Sharing and Other Bonuses \$	Super - annuation \$	Total \$
Non-executive Directors				
Robert Mactier	134,038	–	38,627	172,665
Russell Tate	340,658	–	5,009	345,667
Anne Keating	59,633	–	5,367	65,000
Ian Tsicalas	68,807	–	6,193	75,000
Graham Cubbin	73,395	–	6,605	80,000
Paul Richardson	–	–	–	–
Miles Young (resigned 11 February 2010)	–	–	–	–
Executive Director				
Michael Connaghan	668,397	144,000	14,103	826,500
Director remuneration for the consolidated entity and parent entity	1,344,928	144,000	75,904	1,564,832
Other KMP				
Chris Savage	446,833	40,000	36,500	523,333
Chris Thomson (b)	303,368	100,000	23,683	427,051
Mike Cullen (c)	117,994	–	4,820	122,814
Lukas Aviani (d)	–	–	–	–
Total non-Director KMP remuneration	868,195	140,000	65,003	1,073,198
Executives of the consolidated entity				
Neil Lawrence	691,957	40,000	58,043	790,000
Bruce Matchett	434,167	90,000	70,833	595,000
Total remuneration for executives of the consolidated entity	1,126,124	130,000	128,876	1,385,000
Total remuneration for Directors, other KMP and executives of the consolidated entity	3,339,247	414,000	269,783	4,023,030

(a) There were no additional post-employment benefits provided during the year ended 31 December 2009.

(b) Chris Thomson finalised his employment with the Company on 30 June 2009 and remained as a consultant until 1 September 2009.

(c) Mike Cullen was appointed Chief Financial Officer with effect from 17 August 2009 and resigned on 13 November 2009.

(d) Lukas Aviani was appointed Chief Financial Officer with effect from 1 January 2010.

In addition to the remuneration outlined above, the total cost to the Company includes the amortised cost of the fair value of performance shares issued to the following executives:

- Chris Savage \$4,781, representing a total cost to the Company of \$528,114; and
- Bruce Matchett \$4,781 representing a total cost to the Company of \$599,781.



CORPORATE GOVERNANCE STATEMENT

THE COMPANY'S APPROACH TO CORPORATE GOVERNANCE

The Board and management of STW Communications Group Limited recognise their duties and obligations to stakeholders to implement and maintain a robust system of corporate governance. The Company believes that the adoption of good corporate governance adds value for stakeholders and enhances investor confidence.

The Company acknowledges the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ("Guidelines") revised on 30 June 2010. This statement provides details of the Company's compliance with those recommendations, or where appropriate, indicates a departure from the Guidelines with an explanation.

This statement reflects the Company's corporate governance system in place during the year ended 31 December 2010 and at the date of this statement. The policies are contained on the Company's website, www.stwgroup.com.au.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Roles and responsibilities

The Board is accountable to shareholders for the Company's performance.

The Board's roles and responsibilities are formalised in a Board Charter, together with specific matters that are delegated to management. The charter is disclosed on the Company's website.

The Board has established Committees to assist in carrying out its responsibilities and consider certain issues and functions in detail. The Board Committees are discussed in Principle 2 below.

Board-approved policies and the Code of Conduct define the responsibilities for day-to-day operations delegated to management, and those requiring Board approval.

Retirement and re-election of Directors

The Company's constitution provides for new Board-appointed Directors to stand for election by shareholders at the next Annual General Meeting. In addition, at each Annual General Meeting one-third of Directors, other than the Managing Director, will stand for re-election every year. An election of Directors is held at each Annual General Meeting.

Day-to-day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the Chief Executive Officer and senior executives as set out in the Group's delegations policy. These delegations are reviewed on an annual basis.

Senior executive performance review

The performance of all key executives, including the Chief Executive Officer, is reviewed annually. This involves executives being evaluated by their immediate superiors and assessed against a variety of personal and financial goals.

The Chairman assesses the Chief Executive Officer's performance, including setting the Chief Executive Officer's goals for the coming year, reviewing progress in achieving those goals and making recommendations to the Board.

The Chief Executive Officer is responsible for setting performance objectives and reviewing the performance of his direct reports. The Remuneration and Nominations Committee considers the performance of the Chief Executive Officer and key executives in assessing future fixed remuneration and awarding performance related remuneration through short-term and long-term incentives. Further information is in the Remuneration Report on pages 41 to 54.

A performance assessment for senior executives last took place in December 2010.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

Board structure

As at the date of this statement, the Board is made up of four independent non-executive Directors, two non-executive non-independent Directors and two executive Directors. Directors' profiles – with details of Directors' skills, experience and special expertise – are on pages 34 and 35 in this Annual Report and are also contained on the Company's website, www.stwgroup.com.au.

The Directors determine the Board's size and composition, within the limits set by the Company's constitution, which requires the Board to comprise between three and 10 Directors. The table below summarises the current composition of the Board.

The composition of the Company's Board, was a departure from ASX Recommendation 2.1, which requires a majority of the Board to be non-executive and independent. The Board determined that the composition of the Board represents the best mix of Directors that have an appropriate range of skills, experience, expertise and diversity, who can understand and competently deal with current and emerging business issues, and can effectively review and challenge the performance of management and exercise independent judgement.



CORPORATE GOVERNANCE STATEMENT (CONTINUED)

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE (CONTINUED)

Board structure (continued)

Name	Position	Independent	Reason for Non-Independence	First Appointed
Robert Mactier	Chairman	YES	-	2006
Russell Tate	Deputy Chairman	NO	A former Chief Executive Officer	1992
Michael Connaghan	Chief Executive Officer	NO	Chief Executive Officer	2008
Anne Keating (resigned 10 February 2011)	Non-executive Director	YES	-	1995
Graham Cubbin	Non-executive Director	YES	-	2008
Ian Tsicalas	Non-executive Director	YES	-	2007
Paul Richardson	Non-executive Director	NO	Associated directly with a substantial shareholder – Cavendish Square Holdings BV (WPP plc)	1999
Peter Cullinane (appointed 3 June 2010)	Executive Officer	NO	Chief Executive Officer of a subsidiary of STW Group	2010
Kim Anderson (appointed 10 November 2010)	Non-executive Director	YES	-	2010

Directors' independence

In considering whether a Director is independent the Board has regard to ASX Principle 2.1.

When determining the status of an independent Director, the Board should consider whether the Director:

- is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- is employed, or has previously been employed, in an executive capacity by the Company or another Group member, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
- has within the last three years been a principal of a material professional advisor or a material consultant to the Company or another Group member, or an employee materially associated with the service provided;
- is a material supplier or customer of the Company or another Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; or
- has a material contractual relationship with the Company or a controlled entity other than as a Director of the Group.

The Board assesses independence each year. To enable this process, the Directors must provide all information that may be relevant to the assessment.

Role of the Chairman

The Chairman is responsible for leading the Board, ensuring Directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the Company's senior executives. In accepting the position, the Chairman has acknowledged that it will require a significant time commitment and has confirmed that other positions will not hinder his effective performance in the role of Chairman.

The Chairman's role and responsibilities are separate from those of the Chief Executive Officer. The Chairman is the key link between the Chief Executive Officer and the other Directors and is responsible for effective collaboration between them.

Induction

The induction provided to new Directors and senior managers enables them to actively participate in Board decision-making as soon as possible. It ensures that they have a full understanding of the Company's financial position, strategies, operations and risk management policies. It also explains the respective rights, duties, responsibilities and roles of the Board and senior executives.



PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE (CONTINUED)

Commitment

The number of meetings of the Company's Board of Directors and of each Board committee held during the year ended 31 December 2010, and the number of meetings attended by each Director is disclosed on page 37.

It is the Company's practice to allow its executive Directors to accept appointments outside the Company with prior written approval of the Board. Details of current directorships are noted in the Directors' profiles on pages 34 and 35 in this Annual Report.

The commitments of non-executive Directors are considered by the Remuneration and Nominations Committee prior to the Directors' appointment to the Board of the Company and are reviewed each year as part of the annual performance assessment.

Prior to appointment or being submitted for re-election, each non-executive Director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the Company.

Non-executive Directors

Non-executive Directors hold a private session without any executive involvement as part of each Board meeting to discuss the operation of the Board and a range of other matters. Relevant matters arising from these meetings are shared with the full Board.

Term of office

Each non-executive Director is elected for a three-year term (unless otherwise required to be re-elected earlier due to the rotational policy contained in the Company's Constitution), which is renewable for further periods on the review and approval of the other Directors, and re-election by shareholders at an Annual General Meeting.

Conflicts of interest

In accordance with the Board Charter and the Corporations Act 2001, any Director with a material personal interest in a matter being discussed by the Board must declare such an interest.

Any Director who has an actual or perceived material conflict, or potential conflict, does not, at the discretion of the Board, receive any papers from the Company pertaining to those matters, or participate in any meeting to consider, or vote, on the matter giving rise to that conflict.

Independent professional advice

Directors have a right of access to Company employees, advisors and records. In carrying out their duties and responsibilities, Directors have access to advice and counsel from the Chairman and Company Secretary, and are able to seek independent professional advice – at the Company's expense; after consultation with the Chairman.

Performance reviews

The Board undertakes an annual self assessment of the performance of the whole Board and Board committees. The process involves each Director completing a questionnaire, which enables Directors to raise any issues relating to the Board or a Board Committee. The results are discussed by the whole Board, where initiatives to improve or enhance Board performance and effectiveness are considered and recommended.

The Chairman assesses the performance of other individual Directors and provides feedback to them.

A performance review of the Board and Board committees was undertaken in November 2010.

Board committees

To assist it in undertaking its duties, the Board has established an Audit and Risk Committee and a Remuneration and Nominations Committee.

Each committee has a Board-approved charter setting out its corporate governance roles and responsibilities, composition, structure, membership requirements and operation. Committee meeting minutes are prepared and available to all Board members. The Committees report back to the Board on specific matters and areas of responsibility outlined in the committee charters.

The latest charter for each committee is available on the Company's website, www.stwgroup.com.au.

The Audit and Risk Committee comprises:

Graham Cubbin (Chair)
Robert Mactier
Ian Tsicalas.

The Remuneration and Nominations Committee comprises:

Ian Tsicalas (Chair)
Russell Tate
Kim Anderson (appointed 10 February 2011)
Anne Keating (resigned 10 February 2011).

Details of Directors' attendance at meetings throughout the period are set out in the Directors' Report on page 37.



CORPORATE GOVERNANCE STATEMENT (CONTINUED)

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE (CONTINUED)

Nomination and appointment of Directors

The Board's Remuneration and Nominations Committee recommends new Directors and manages the process for identifying and appointing those new Directors. The Remuneration and Nominations Committee's charter is available on the Company's website.

The Committee comprises three Directors, a majority of whom are independent and is chaired by an independent Director. Details of these Directors' attendance at Remuneration and Nominations Committee meetings are set out in the Directors' Report on page 37.

When a new Director is to be appointed, the Committee reviews the range of skills, experience, expertise and diversity on the Board, identifies its needs and prepares a short-list of candidates with appropriate skills and experience.

The full Board will appoint the most suitable candidate who must stand for election at the next Annual General Meeting of the Company. The Board's nomination of existing Directors for reappointment is not automatic and is contingent on their past performance, contribution to the Company and the current and future needs of the Board and Company.

New Directors are provided with a letter of appointment setting out the Company's expectations, their responsibilities, their rights and the terms and conditions of their employment. All new Directors participate in a comprehensive, formal induction program which covers the operation of the Board and its committees and financial, strategic, operations and risk management issues.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Code of conduct

The Board has adopted a Corporate Code of Conduct which applies to all employees of the Group and a Code of Conduct for Directors and senior executives. The Company has developed and implemented policies governing Director and employee conduct that articulates the standards of honest, ethical and law-abiding behaviour expected by the Company.

Employees are actively encouraged to bring any problems to the attention of management or the Board, including activities or behaviour which may not comply with the Code of Conduct, other policies in place or regulatory requirements or laws.

A summary of the Corporate Code of Conduct and Code of Conduct for Directors and senior executives is available on the Company's website.

Share Trading Policy

The Company's Share Trading Policy concerning trading in Company securities allows Directors and senior executives to deal in STW Group securities during the one-month period beginning at the close of trading on the day after the Company:

- (i) announces its half-yearly results to the ASX;
- (ii) announces its full-year results to the ASX; and
- (iii) holds its Annual General Meeting.

All Directors and employees are prohibited from trading in STW Group securities at any time if they possess price-sensitive information not available to the market and which could, reasonably, be expected to influence the market.

Directors and senior management must give the Chairman and Company Secretary prior notice of any proposed dealing in STW Group securities. The ASX, and all other Directors, are notified of any transactions by a Director in Company securities. Each Director has an agreement to provide information to enable notification to the ASX of any share transaction within three business days.

The Share Trading Policy is available on the Company's website.

Gender diversity

The Company is focusing on maintaining an appropriate level of diversity across all levels of its workforce. The Company's actions will be guided by maintaining its current high standards of competence and performance.

The levels of gender diversity as at 31 December 2010 are set out below:

Gender diversity	Male	Female
Total employees	51%	49%
Senior managers	64%	36%
Board	90%	10%

The Board has set a target to maintain the strong level of gender diversity across the Group. It is the responsibility of the Remuneration and Nominations Committee to review on an annual basis the objectives in relation to achieving gender diversity and to measure the achievement of these objectives.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Audit and Risk Committee

The Board has the responsibility to ensure truthful and factual presentation of the Company's financial position. The Board has established the Audit and Risk Committee to oversee the structure and management systems that ensure the integrity of the Company's financial reporting.



The Audit and Risk Committee consists of the following non-executive Directors:

Graham Cubbin (Chair)
Rob Mactier
Ian Tsicalas.

The Audit and Risk Committee consists only of non-executive Directors, including a majority of independent Directors. The Chairman of the Board cannot chair the Audit and Risk Committee. Committee members have financial expertise and understand the industries in which the Company operates. The details of the members' qualifications are set out on pages 34 and 35 in this Annual Report.

The Committee meets at least three times per year, and during 2010 met three times. An agenda is prepared, and papers circulated to Committee members, before each meeting. The Company's external auditor attends committee meetings, with management attending at the Committee Chairman's invitation.

The main responsibilities of the committee are to:

- review, assess and approve the annual full year financial report, the half-year financial report and all other financial information published by the Company or released to the market;
- oversee the effective operation of the risk management framework;
- review the independence of the external auditor, including the nature and level of non-audit services provided, and report on this issue to the full Board;
- recommend to the Board the appointment, removal and remuneration of the external auditors, review the terms of their engagement, the scope and quality of the audit and assess performance; and
- report to the Board on matters relevant to the Committee's role and responsibilities.

In fulfilling its responsibilities, the Audit and Risk Committee:

- receives regular reports from management and external auditors;
- meets with the external auditors at least twice a year, or more frequently if necessary;
- reviews the processes the Chief Executive Officer and Chief Financial Officer have in place to support their certifications to the Board;
- reviews any significant disagreements between the auditors and management irrespective of whether they have been resolved;
- meet at least twice a year separately with the external auditors without executive Directors or management present; and
- provides the external auditors with a clear line of direct communication at any time to either the Chair of the Audit and Risk Committee or the Chairman of the Board.

The Audit and Risk Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

The Audit and Risk Committee's charter is available on the Company's website.

Independent external auditor

The Company and Audit and Risk Committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs.

The Company's independent external auditor is Deloitte Touche Tohmatsu ("Deloitte"). The appointment of Deloitte was ratified by members at the Annual General Meeting held on 18 May 2007. External auditors will be required to rotate the lead engagement partner assigned to the Company every five years.

The external auditor will attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

The Company has written policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Group that a reasonable person would expect to have a material effect on the price of the Company's securities.

The Company Secretary has been nominated as the person responsible for communications with the ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, the media and the public.

The Board has approved and implemented a Market Disclosure Protocol. The Protocol is designed to ensure compliance with the Corporations Act 2001 and ASX Listing Rules continuous disclosure requirements. The Company has a Market Disclosure Committee which is responsible for:

- making decisions on what should be disclosed publicly under the Market Disclosure Protocol;
- maintaining a watching brief on information; and
- ensuring disclosure is made in a timely and efficient manner.

The Market Disclosure Protocol is available on the Company's website.



CORPORATE GOVERNANCE STATEMENT (CONTINUED)

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Shareholder communication

The Company is committed to providing regular communication to shareholders and other investors so that they have all available information reasonably required to make informed assessments of the Company's strategy, operations and financial performance.

All information disclosed to the ASX is posted on the Company's website as soon as it is disclosed to the ASX. When analysts are briefed on aspects of the Group's operations, the material used in the presentation is released to the ASX and posted on the Company's website.

The Company also publishes annual and half-yearly reports, announcements, media releases and other information on its website at www.stwgroup.com.au. The Company's website contains all recent announcements, presentations, past and current reports to shareholders, notices of meeting and archived webcasts of general meetings and investor presentations.

Internet webcasting is provided for market briefings to encourage participation from all stakeholders regardless of their location. Where practical, the Company maintains a record of issues discussed at group or one-on-one briefings with investors and analysts, including a list of who was present and the time and place of meeting. Annual and half-yearly reports are provided to shareholders other than those who have requested not to receive a copy. Shareholders may elect to receive all Company reports electronically.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

The management of risks is fundamental to the Company's business and building shareholder value. The Board recognises a broad range of risks which apply to the Company as a marketing communications group including, but not limited to strategic, operational, compliance, reputational and financial risks.

The Board is responsible for determining the Group's risk management strategy. Management is responsible for implementing the Board's strategy and developing policies and procedures to identify, manage and mitigate risks across the whole of the Group's operations.

An executive risk committee has been established to provide operational oversight of the risk management framework.

Management reports to the Audit and Risk Committee on the Company's material risks and the extent to which they believe they are being managed. This is performed twice a year, or more frequently as required by the Committee.

As part of ongoing management review, a detailed, company-wide internal control questionnaire is completed annually, reviewed by senior management and reported to the Audit and Risk Committee. A review of major risks is undertaken for all corporate and operational activities.

Major risks are reported to the Board, along with controls and risk mitigation plans.

Corporate reporting

When presenting financial statements for Board approval, the Chief Executive Officer and Chief Financial Officer provide a formal statement indicating that:

- the financial statements present a true and fair view in all material respects of the Group's financial condition and operational results, and are in accordance with the relevant accounting standards;
- the financial statements are founded on a sound system of risk management and internal compliance and control, which implements policies adopted by the Board; and
- risk management and internal control systems are sound and operating effectively in all material respects.

The assurance forms part of the process by which the Board determines the effectiveness of its risk management and internal control systems in relation to financial reporting risks.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

The Board has established a Remuneration and Nominations Committee comprising of a majority of independent Directors, having at least three members and chaired by an independent Director as follows:

Ian Tsicalas (Chair)

Russell Tate

Kim Anderson (appointed 10 February 2011)

Anne Keating (resigned 10 February 2011).

The Remuneration and Nominations Committee's charter is available on the Company's website, and further information is provided in the Remuneration Report on pages 41 to 54.

The Remuneration and Nominations Committee advises the Board on remuneration and incentive policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive Directors, other senior executives and non-executive Directors.

STW's policy, contained in the Share Trading Policy, prohibits an executive from entering into a transaction that is designed or intended to hedge that component of their unvested remuneration which is constituted by STW shares.

It is the Company policy to prohibit margin lending over STW shares by Directors and senior executives.

The remuneration of non-executive Directors is structured separately from that of the executive Directors and senior executives. Further information on the Group's remuneration policies and practices, along with remuneration details for the Group's key management, five highest-paid executives and non-executive Directors, are contained in the Remuneration Report on pages 41 to 54.



INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 10

	Notes	Consolidated Entity	
		2010 \$'000	2009 \$'000
Continuing operations			
Revenue	4(a)	309,985	275,941
Other income	4(b)	4,314	3,627
Share of net profits of jointly controlled entities accounted for using the equity method	4(c)	9,049	7,876
		323,348	287,444
Employee benefits expense		(187,470)	(166,435)
Occupancy costs		(15,679)	(13,906)
Depreciation and amortisation expense	5(a)	(5,871)	(5,744)
Travel, training and entertainment costs		(8,684)	(7,103)
Impairment costs	5(c)	–	(8,879)
Commercial costs		(6,229)	(4,693)
Office costs		(12,463)	(9,912)
Administration costs		(9,652)	(9,258)
Finance costs	5(b)	(11,741)	(14,764)
Profit before income tax		65,559	46,750
Income tax expense	6	(16,113)	(15,078)
Net profit		49,446	31,672
Net profit attributable to:			
- Non-controlling interests		10,783	9,892
- Members of the parent entity		38,663	21,780
		Cents	Cents
Earnings per share:			
Basic earnings per share	7	10.81	7.32
Diluted earnings per share	7	10.81	7.32

The above Income Statement should be read in conjunction with the accompanying notes.



STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 10

	Consolidated Entity	
	2010 \$'000	2009 \$'000
Net profit	49,446	31,672
Other comprehensive income		
Exchange loss arising on translation of foreign operations	(4,176)	(1,940)
Gain on cash flow hedges taken to equity	1,641	2,537
Income tax relating to components of other comprehensive income	(492)	(761)
Other comprehensive income (net of tax)	(3,027)	(164)
Total comprehensive income	46,419	31,508
Total comprehensive income attributable to:		
- Non-controlling interests	10,152	9,501
- Members of the parent entity	36,267	22,007

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.



BALANCE SHEET

AS AT

31 DECEMBER 10

	Notes	Consolidated Entity	
		2010 \$'000	2009 \$'000
Current assets			
Cash and cash equivalents	9	43,769	42,034
Trade and other receivables	10	153,656	121,475
Current tax assets	6	1,123	5,522
Other current assets	11	2,143	4,282
Total current assets		200,691	173,313
Non-current assets			
Other receivables	12	12,853	12,775
Investments accounted for using the equity method	13	100,326	98,550
Other financial assets	14	228	225
Plant and equipment	15	19,906	20,342
Deferred tax assets	16	8,851	8,406
Intangible assets	17	382,847	381,637
Other non-current assets	18	2,687	781
Total non-current assets		527,698	522,716
Total assets		728,389	696,029
Current liabilities			
Trade and other payables	19	216,066	141,928
Borrowings	20	3,463	530
Current tax liabilities	6	17,492	9,015
Provisions	21	6,586	7,998
Total current liabilities		243,607	159,471
Non-current liabilities			
Other payables	22	17,423	46,641
Borrowings	23	73,800	113,048
Deferred tax liabilities	24	6,718	6,896
Provisions	25	2,402	2,220
Total non-current liabilities		100,343	168,805
Total liabilities		343,850	328,276
Net assets		384,439	367,753
Equity			
Issued capital	26	276,186	276,100
Reserves	27	9,378	11,249
Retained earnings	28	62,174	39,137
Equity attributable to members of the parent entity		347,738	326,486
Non-controlling interests		36,701	41,267
Total equity		384,439	367,753

The above Balance Sheet should be read in conjunction with the accompanying notes.



STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 10

Attributable to Equity Holders of the Consolidated Entity

	Notes	Issued Capital \$'000	Equity Settled Share- based Payment Reserve* \$'000	Brand Name Revalu- ation Reserve* \$'000	Interest Rate Hedge Reserve* \$'000	Foreign Currency Transla- tion Reserve* \$'000	Retained Earnings \$'000	Total \$'000	Non- controlling Interests \$'000	Total Equity \$'000
Consolidated Entity										
At 1 January 2009		197,091	5,788	16,275	(3,111)	(2,142)	29,882	243,783	36,904	280,687
Net profit		-	-	-	-	-	21,780	21,780	9,892	31,672
Other comprehensive income		-	-	-	1,776	(1,549)	-	227	(391)	(164)
Total comprehensive income		-	-	-	1,776	(1,549)	21,780	22,007	9,501	31,508
Non-controlling interests on acquisition and disposal of controlled entities		-	-	-	-	-	-	-	3,162	3,162
Rights issue	26	73,221	-	-	-	-	-	73,221	-	73,221
Issue of executive share plan shares	27	5,788	(5,788)	-	-	-	-	-	-	-
Equity dividends provided for or paid	8	-	-	-	-	-	(12,525)	(12,525)	(8,300)	(20,825)
At 31 December 2009		276,100	-	16,275	(1,335)	(3,691)	39,137	326,486	41,267	367,753
Net profit		-	-	-	-	-	38,663	38,663	10,783	49,446
Other comprehensive income		-	-	-	1,149	(3,545)	-	(2,396)	(631)	(3,027)
Total comprehensive income		-	-	-	1,149	(3,545)	38,663	36,267	10,152	46,419
Non-controlling interests on acquisition of controlled entities		-	-	-	-	-	-	-	9	9
Issue of executive share plan shares	26	86	(86)	-	-	-	-	-	-	-
Cost of share-based payments	27	-	611	-	-	-	-	611	-	611
Equity dividends provided for or paid	8	-	-	-	-	-	(15,626)	(15,626)	(14,727)	(30,353)
At 31 December 2010		276,186	525	16,275	(186)	(7,236)	62,174	347,738	36,701	384,439

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

* Nature and purpose of reserves:

The equity settled share-based payment reserve is used to record the amortised cost of share rights granted to executives, the value of which has not been transferred to the relevant executives.

The brand name revaluation reserve is used to record the net upward revaluation of acquired brand names.

The interest rate hedge reserve is used to record the portion of the gains or losses on a hedging instrument in a hedge that is determined to be an effective cash flow hedge.

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign controlled entities.



CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 10

	Notes	Consolidated Entity	
		2010 \$'000	2009 \$'000
Cash flows from operating activities			
Receipts from customers		946,849	891,973
Payments to suppliers and employees		(851,311)	(793,228)
Net cash flows from operations		95,538	98,745
Interest received		2,701	3,304
Interest and other costs of finance paid		(9,151)	(12,100)
Dividends and trust distributions received from controlled and jointly controlled entities		6,880	7,310
Income taxes paid		(6,324)	(18,037)
Net cash flows from operating activities	9	89,644	79,222
Cash flows from investing activities			
Payments for purchase of controlled entities, net of cash acquired	33(c)	(765)	(6,443)
Payments for purchase of jointly controlled entities		(3,912)	(424)
Payments for purchase of plant and equipment		(5,254)	(4,207)
Proceeds from sale of controlled and jointly controlled entities		510	–
Earnout payments on controlled entities		(17,065)	(22,237)
Loan to controlled and jointly controlled entities		(75)	(6,275)
Net cash flows used in investing activities		(26,561)	(39,586)
Cash flows from financing activities			
Proceeds from borrowings		265,550	76,071
Repayments of borrowings		(299,452)	(168,525)
Repayments of finance lease liabilities		(2,414)	(347)
Gross proceeds from issue of shares	26	–	75,914
Cost of issue of shares	26	–	(2,693)
Equity holder dividends paid	8	(15,626)	(12,525)
Dividends paid to non-controlling interests		(9,104)	(8,300)
Net cash flows used in financing activities		(61,046)	(40,405)
Net increase/(decrease) in cash held		2,037	(769)
Effects of exchange rate changes on cash and cash equivalents		(302)	(178)
Cash at the beginning of the year		42,034	42,981
Cash at the end of the year	9	43,769	42,034

The above Cash Flow Statement should be read in conjunction with the accompanying notes.



CONTENTS – NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 10

NOTE		PAGE	NOTE		PAGE
1	Significant accounting policies	67	34	Expenditure commitments	119
2	Critical accounting estimates and judgements	75	35	Contingent liabilities	120
3	Segment information	76	36	Subsidiaries	121
4	Revenue	78	37	Deed of Cross Guarantee	124
5	Expenses	79	38	Auditors' remuneration	126
6	Income tax	80	39	Events after the balance sheet date	126
7	Earnings per share	81	40	Parent entity Financial information	127
8	Dividends paid and proposed	82			
9	Current assets - cash and cash equivalents	83			
10	Current assets - trade and other receivables	84			
11	Current assets - other current assets	86			
12	Non-current assets - other receivables	86			
13	Non-current assets - investments accounted for using the equity method	86			
14	Non-current assets - other financial assets	89			
15	Non-current assets - plant and equipment	90			
16	Non-current assets - deferred tax assets	91			
17	Non-current assets - intangible assets	92			
18	Non-current assets - other non-current assets	95			
19	Current liabilities - trade and other payables	95			
20	Current liabilities - borrowings	97			
21	Current liabilities - provisions	97			
22	Non-current liabilities - other payables	97			
23	Non-current liabilities - borrowings	98			
24	Non-current liabilities - deferred tax liabilities	101			
25	Non-current liabilities - provisions	101			
26	Issued capital	101			
27	Reserves	103			
28	Retained earnings	104			
29	Financial instruments	104			
30	Share-based payments	111			
31	Key management personnel ("KMP") disclosures	112			
32	Related party disclosures	116			
33	Business combinations	117			



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 10

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report of STW Communications Group Limited for the year ended 31 December 2010 was authorised for issue in accordance with a resolution of the Directors, dated 30 March 2011.

STW Communications Group Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange ("ASX").

(A) BASIS OF PREPARATION

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and Australian Accounting Interpretations and complies with other requirements of the law.

The financial report has also been prepared on a historical cost basis, except for the revaluation of certain financial instruments.

(B) STATEMENT OF COMPLIANCE

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ("AIFRSs"). Compliance with AIFRSs ensures that the consolidated financial report, comprising the consolidated financial statements and notes thereto, complies with International Financial Reporting Standards.

At the date of authorisation of the financial report, a number of standards and interpretations which will be applicable to the Group were in issue but not yet effective (we do not expect the impact of these standards to be material):

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 Financial Instruments, AASB 2009-11 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9	1 January 2013	31 December 2013
AASB 124 Related Party Disclosures (2009), AASB 2009-12 Amendments to Australian Accounting Standards	1 January 2011	31 December 2011
AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues	1 February 2010	31 December 2011
AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	1 January 2011	31 December 2011
AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 July 2010	31 December 2011
AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 January 2011	31 December 2011
AASB 2010-5 Amendments to Australian Accounting Standards	1 January 2011	31 December 2011
AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets	1 July 2011	31 December 2012
AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (2010)	1 January 2013	31 December 2013
AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets	1 January 2012	31 December 2012
AASB Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010	31 December 2011



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 10

(C) BASIS OF CONSOLIDATION

(i) Controlled entities

The consolidated financial statements incorporate the assets and liabilities of all controlled entities of STW Communications Group Limited ("Company" or "parent entity") as at 31 December 2010 and the results of all controlled entities for the year then ended. STW Communications Group Limited and its controlled entities together are referred to in this financial report as the "Group" or the "consolidated entity".

Controlled entities are all those entities over which the Group has the power to govern the financial and operating policies; generally, with an accompanying equity holding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Controlled entities are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of controlled entities by the Group (refer to Note 1(ii)).

Inter-entity transactions, balances and unrealised gains on transactions between Group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

Where the Group has a less than 100% interest in a controlled entity, and both vendor and purchaser hold put and call option agreements whereby the Group's interest in the target entity will increase to 100% at a future date, it is the Group's policy that 100% of the target entity earnings and balance sheet be included in the consolidated entity's income statement and balance sheet. This is notwithstanding that the Group's ownership interest in the target entity is less than 100%. An estimate is made of the likely future capital payment to be made upon exercise of the put or call option. Additionally, an estimate is made of likely future distribution payments to be made to the non-controlling holders in their capacity as equity holders in the target entity. These amounts (at their present value as disclosed in Note 1(i) Business combinations) are disclosed as either a current or non-current liability titled 'Deferred cash settlement for controlled and jointly controlled entities acquired' as shown in Note 19 and 22. Any distribution payments made to non-controlling holders during the period are treated as a reduction of this deferred consideration liability.

In all other circumstances, non-controlling interests in the results and equity of controlled entities are shown separately in the consolidated income statement, statement of comprehensive income and balance sheet, respectively.

(ii) Jointly controlled entities

Jointly controlled entities are entities over which the Group has contractually agreed sharing of control over economic activities which exists due to strategic financial and operating decisions relating to the activities of those entities requiring the unanimous consent of the parties sharing control. Investments in jointly controlled entities are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in jointly controlled entities includes goodwill (net of any accumulated impairment loss) identified on acquisition. Impairment losses are charged to the income statement and any reversals are credited to the income statement.

The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends or trust distributions receivable from jointly controlled entities are recognised in the parent entity's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.



(D) ROUNDING OF AMOUNTS TO THE NEAREST THOUSAND DOLLARS

The Company is an entity to which Class Order (CO 98/0100) issued by the Australian Securities and Investments Commission applies and, accordingly, amounts in the financial statements have been rounded off to the nearest thousand dollars in accordance with this class order.

(E) FOREIGN CURRENCY TRANSLATION

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Australian dollars, which is STW Communications Group Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement and statement of comprehensive income.

(iii) Group entities

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- assets and liabilities for each balance sheet are translated at the closing rate at the date of that balance sheet; and
- all resulting exchange differences are recognised in the foreign currency translation reserve, as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities and of borrowings, are taken to equity. When a foreign operation is sold or borrowings repaid, a proportionate share of such exchange differences is recognised in the income statement and statement of comprehensive income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(F) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of any refunds, trade allowances and duties and taxes paid.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Advertising revenue

Advertising billings, which are not recognised in the income statement, comprise the total value of advertising placed by clients on which controlled entities earn commission and fees, and capitalised billings on fees earned for advertising not directly placed for clients. The value of advertising billings is included in 'Receipts from customers' in the cash flow statement.

Advertising fee revenue from a contract to provide services is recognised by reference to the stage of completion of the advertising contract. The stage of completion of the advertising contract considers agreed contractual labour rates, direct expenses incurred and percentage of the contract completed.

(ii) Media revenue

Media commission and service fees are brought to account on a monthly basis, once advertisements have been run in the media and billed to clients.

(iii) Production revenue

Production commission and service fees are brought to account when the costs incurred for production costs are billed to clients.

(iv) Retainer fees

Retainer-based fees arising from a contract to provide services are recognised on a straight-line basis over the period of the contract.

(v) Collateral revenue

Collateral revenue is brought to account when the related costs are billed to clients.

(vi) Interest

Interest revenue is recognised on a time proportional basis taking into account the effective interest rates applicable to the financial assets.

(vii) Dividends and trust distributions

Dividend and trust distribution revenue is recognised when the right to receive a dividend and/or trust distribution has been established. For the consolidated entity, dividends and trust distributions received from jointly controlled entities are accounted for in accordance with the equity method of accounting.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 10 (CONTINUED)

(G) TAXES

(i) Income tax

The income tax expense or revenue for the period is the tax payable or tax refund on the current period's taxable income based on the income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(iii) Goods and services tax ("GST")

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of the acquisition of the asset or as part of the expense item as applicable; and
- trade and other receivables and trade and other payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from or payable to the taxation authority, is classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(iii) Tax consolidation

The Company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. STW Communications Group Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement.

(H) LEASES

Leases of plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. Each lease payment is allocated between the liability and the finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The plant and equipment acquired under finance leases are depreciated over the estimated useful life of the leased assets.

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

(I) BUSINESS COMBINATIONS

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the



liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently re-measured to fair value with changes in fair value recognised in profit or loss.

Prior to control being obtained, the investment is accounted for under AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and AASB 139 'Financial Instruments.' On the date that control is obtained, the fair values of the acquired entity's assets and liabilities, including goodwill, are measured. Any resulting adjustments to previously recognized assets and liabilities are recognised in the profit and loss. Thus, attaining control triggers re-measurement.

(J) IMPAIRMENT OF ASSETS

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and its value in use. Value in use is based on future cash flows attributable to the asset or assets, and these cash flows are

discounted using a weighted average cost of capital. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units ("CGUs")).

For assets other than goodwill, where an impairment loss subsequently reverses, the carrying value of the asset is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the amount that would have been determined had no impairment loss been recognised.

(K) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, deposits at call with financial institutions, and other short-term, highly liquid investments with original maturities of three months or less, that are readily convertible to known amounts of cash, and that are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(L) TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less any provision for doubtful receivables. Trade receivables are due for settlement no more than 30 days from the date of recognition.

Collectibility of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is raised when some doubt as to collection by the Group of all amounts due according to the original terms of receivables exists. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(M) INVESTMENTS AND OTHER FINANCIAL ASSETS

The Group classifies its investments in the following categories: loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of the investments at initial recognition and re-evaluates this designation at each reporting date.

(i) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 10 (CONTINUED)

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade date being the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method less impairment. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity as available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

Financial assets are assessed for indicators of impairment at each balance date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit and loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in the fair value after an impairment loss is recognised directly in equity.

(N) FAIR VALUE ESTIMATION

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(O) PLANT AND EQUIPMENT

Plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on plant and equipment is calculated using a straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives to the consolidated entity as follows: plant and equipment: 12%-40% per annum.

Where items of plant and equipment have separately identifiable components which are subject to regular replacement, those components



are assigned useful lives distinct from the item of plant and equipment to which they relate.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (refer to Note 1(j)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, the amounts included in other reserves in respect of those assets are transferred to retained earnings.

(P) INTANGIBLE ASSETS

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired controlled entity or jointly controlled entity at the date of acquisition. Goodwill on acquisitions of controlled entities is included in intangible assets. Goodwill on acquisitions of jointly controlled entities is included in investments in jointly controlled entities. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to CGUs for the purpose of impairment testing. Each of those CGUs represents the Group's investment in a controlled entity or jointly controlled entity.

An impairment loss recognised for goodwill is recognised immediately in profit and loss and is not reversed in a subsequent period.

(ii) Brand name

With each business combination, the Group assesses whether an acquisition of a brand name has taken place. Brand names are identifiable intangible assets with indefinite useful lives. They are not subject to amortisation, rather they are subject to impairment testing in accordance with Note 1(j).

The value of brand names is determined using the 'relief from royalty' method. This entails an estimate of the comparable royalty payments that would need to be made by the Group to license the use of the brand name. The valuation is the present value of these future payments discounted at the weighted average cost of capital.

(iii) Intellectual property

Intellectual property has a finite useful life and is carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of intellectual property over its estimated useful life, which is five years.

(iv) Research and development

Expenditure on research activities, undertaken with the prospect of obtaining new technical knowledge and understanding, is recognised in the income statement as an expense when it is incurred.

Expenditure on development activities, being the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products or services before the start of commercial production or use, is capitalised if the product or service is technically and commercially feasible and adequate resources are available to complete development. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services and direct labour. Other development expenditure is recognised in the income statement as an expense as incurred.

Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost over the period of the expected benefit, which varies from three to five years.

(Q) TRADE AND OTHER PAYABLES

Trade and other payables are recognised initially at their fair value, which is the amount expected to be paid, and subsequently at amortised cost. These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition.

(R) BORROWINGS

Borrowings are initially recognised at fair value, net of transaction costs incurred. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are subsequently measured at amortised cost. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(S) FINANCE COSTS

Finance costs are recognised as an expense in the period in which they are incurred. Finance costs include interest, amortisation of discounts or premiums, amortisation of ancillary costs incurred in connection with borrowings, and finance lease charges.

(T) PROVISIONS

Provisions are recognised when: the Group has a present obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 10 (CONTINUED)

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

(U) EMPLOYEE BENEFITS

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave expected to be settled within less than 12 months from the reporting date is recognised in the provision for employee benefits and is measured in accordance with (i) above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Share-based payments

Share-based compensation benefits are provided to employees via the executive share plan ("ESP"), as detailed in the Remuneration Report on pages 41 to 54.

The fair value of shares granted under the ESP is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the executives become unconditionally entitled to the shares.

The fair value of the shares under the ESP is based on the market price of ordinary shares of the Company sold on the ASX on the grant date.

The fair value of the shares granted excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of shares that are expected to vest.

At each balance sheet date, the entity revises its estimate of the number of shares that are expected to vest. The employee benefit expense recognised each period takes into account the most recent estimate.

(iv) Profit-sharing and bonus plans

The Group recognises a liability and an expense for profit sharing and bonuses based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(V) ISSUED CAPITAL

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business, are not included in the cost of the acquisition as part of the purchase consideration, but are shown in equity as a deduction, net of tax, from the gross proceeds.

(W) DIVIDENDS

Provision is made for the amount of any dividend declared at or before the end of the year but not distributed at balance date.

(X) EARNINGS PER SHARE

(i) Basic earnings per share

Basic earnings per share is calculated by dividing net profit after income tax attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares, if any, issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.



(Y) DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate risk, including interest rate swaps and caps. Further details of derivative financial instruments are disclosed in Note 29.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The Group designates certain derivatives as hedges of highly probable forecast transactions ("cash flow hedges").

The fair value of a hedging derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and the instrument is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

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

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, or the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

(Z) GOING CONCERN BASIS

As at 31 December 2010, The consolidated entity's current liabilities are greater than current assets by \$42,916,000 as a result of working capital management initiatives. Although in a net current liability position, the Group continues to generate positive cash flows and profits and the Directors believe that the Group has adequate resources to continue to pay its debts as and when they fall due. Accordingly, the adoption of the going concern basis in preparing the financial statements is appropriate.

NOTE 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

(i) Impairment of goodwill, other intangible assets and investments

The Group determines on at least an annual basis (and at such other times when indicators of impairment arise) whether goodwill, other intangible assets and investments with indefinite useful lives and investments are impaired. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill are discussed in Notes 1(p) and 17.

(ii) Deferred costs of acquisition

The Group measures the cost of investments with reference to forecast results of the acquired entity. These forecast results are reassessed at least annually with reference to management accounts and projections. The treatment of deferred costs of investment acquisition liabilities is detailed further in Notes 1(i), 19 and 22.

(iii) Share-based payment transactions

The Group measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The employee benefit expense is then determined with reference to a binomial probability model which includes estimates of the probability factors of an employee meeting employment duration targets and the Group achieving certain performance targets as set annually by the Remuneration and Nominations Committee as detailed in the Remuneration Report on pages 41 to 54.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 10 (CONTINUED)

NOTE 3. SEGMENT INFORMATION

IDENTIFICATION OF REPORTABLE SEGMENTS

The Company has identified its operating segments based on the internal reports that are reviewed and used by the Board (the chief operating decision-maker) in assessing performance and in determining the allocation of resources. The operating segments are identified by the Board based on reporting lines and the nature of services provided. Discrete financial information about each of these operating businesses is reported to the Board on a monthly basis. The Company operates predominately in Australia.

The reportable segments are based on aggregated operating segments determined by the similarity of the services provided and other factors.

SEGMENTS

The Company has identified two reportable segments:

- Advertising, Production and Media; and
- Diversified Communications.

Advertising, Production and Media - the Advertising, Production and Media segment provides advertising services, television and print production services and media investments for Australia and New Zealand's great brands.

Diversified Communications - the Diversified Communications segment covers the full gamut of marketing communications services. The Diversified Communications segment was established in order to offer clients a total solution to their marketing needs, well beyond their traditional advertising, production and media requirements.

A detailed list of all products and services provided by the Company is not disclosed due to the cost of extracting the information.

HOLDING COMPANY

Holding Company costs are those costs which are managed on a Group basis and not allocated to business segments. They include revenues from one-off projects undertaken by the head office for external clients and costs associated with strategic planning decisions, compliance costs and treasury related activities.

ACCOUNTING POLICIES

Segment revenues and expenses are those directly attributable to the segments. The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 1.

INTERSEGMENT TRANSFERS

Segment revenues, expenses and results include transfers between segments. The prices charged on intersegment transactions are the same as those charged for similar goods to parties outside of the Group at arm's length. These transfers are eliminated on consolidation. As intersegment revenues are considered immaterial, no further disclosure of these is made in Note 3 Segment Information.



BUSINESS SEGMENTS

The following table presents revenue and profit information and certain asset and liability information regarding business segments for the years ended 31 December 2010 and 31 December 2009 which has been restated to reflect the current business segment presentation:

	Advertising, Production and Media		Diversified Communications		Holding Company and Unallocated		Consolidated Entity	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Revenue from services rendered	174,251	160,857	131,585	110,225	1,400	1,555	307,236	272,637
Share of net profits of jointly controlled entities	5,744	4,794	3,305	3,082	–	–	9,049	7,876
Other income	3,088	2,907	396	196	830	524	4,314	3,627
Segment revenue	183,083	168,558	135,286	113,503	2,230	2,079	320,599	284,140
Segment result	55,378	51,567	37,711	32,665	(12,667)	(10,334)	80,422	73,898
Impairment costs	–	(4,478)	–	(4,401)	–	–	–	(8,879)
Loss on disposal of non-current assets	–	–	–	(1,065)	–	–	–	(1,065)
Segment result after one-off adjustments	55,378	47,089	37,711	27,199	(12,667)	(10,334)	80,422	63,954
Depreciation and amortisation expense							(5,871)	(5,744)
Net interest							(8,992)	(11,460)
Profit before income tax							65,559	46,750
Income tax expense							(16,113)	(15,078)
Net profit							49,446	31,672
Net profit attributable to:								
- Non-controlling interests							10,783	9,892
- Members of the parent entity							38,663	21,780



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 10 (CONTINUED)

NOTE 4. REVENUE

		Consolidated Entity	
		2010 \$'000	2009 \$'000
	Notes		
(a) Revenue			
Services rendered		307,236	272,637
Interest income			
Jointly controlled entities		324	426
Other entities		2,425	2,878
Total interest income		2,749	3,304
Total revenue		309,985	275,941
(b) Other income			
Dividends from listed investments		19	14
Other revenue		4,295	3,613
Total other income		4,314	3,627
(c) Share of net profits of jointly controlled entities accounted for using the equity method			
Equity share of jointly controlled entities' net profits	13(c)	9,049	7,876

**NOTE 5. EXPENSES**

	Consolidated Entity	
	2010 \$'000	2009 \$'000
Profit for the year has been derived after crediting/(charging) the following losses and expenses:		
(a) Depreciation and amortisation expense		
Depreciation and amortisation of non-current assets:		
Plant and equipment	5,045	4,974
Total depreciation of non-current assets	5,045	4,974
Amortisation of non-current assets:		
Intangible assets	826	770
Total amortisation of non-current assets	826	770
Total depreciation and amortisation expense	5,871	5,744
(b) Finance costs		
Finance costs:		
Interest expense – deferred consideration payable	2,590	2,474
Interest expense – other parties	8,977	12,100
Finance lease charges	174	190
Total finance costs	11,741	14,764
(c) Other expenses/(gains)		
Loss on disposal of non-current assets	–	1,065
Impairment of goodwill	–	3,041
Impairment of jointly controlled entities	–	5,838
Loss on disposal of plant and equipment	374	14
Gain on consolidation of non-current assets	(838)	–
Foreign exchange (gain)/loss	(52)	50
Superannuation contributions	9,776	6,267
(d) Operating lease rental		
Minimum lease payments	14,648	13,087



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 10 (CONTINUED)

NOTE 6. INCOME TAX

	Consolidated Entity	
	2010 \$'000	2009 \$'000
(a) Income tax expense		
Current tax	17,119	14,764
Deferred tax	(1,115)	72
Adjustments for current tax of prior periods	109	242
Income tax expense reported in income statement	16,113	15,078
(b) Tax asset and liability included in the financial statements:		
Current tax assets	1,123	5,522
Current tax liabilities	(17,492)	(9,015)
	(16,369)	(3,493)
(c) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	65,559	46,750
Tax at the Australian tax rate of 30% (2009: 30%)	19,668	14,025
Adjustments for current income tax of prior years	109	242
Tax adjustments resulting from equity accounting	(2,715)	(2,363)
Other items (allowable) /not allowable for income tax purposes	(1,114)	2,918
Amortisation of intangible assets	165	256
Income tax expense reported in income statement	16,113	15,078
(d) Tax expense relating to items of other comprehensive income		
Cash flow hedges (Note 27)	492	761

(e) Tax losses

The Group has tax losses arising in Australia of \$4,003,000 on revenue account and \$6,109,719 on capital account (2009: \$2,570,000 on revenue account and \$6,109,719 on capital account) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

Tax losses are only brought to account as a deferred tax asset to the extent that they are deemed recoverable.

(f) Unrecognised temporary differences

A deferred tax liability has not been recognised in respect of temporary differences arising as a result of the translation of the financial statements of the Group's foreign subsidiaries. The deferred tax liability will only arise in the event of disposal of the subsidiary, and no such disposal is expected in the foreseeable future.

At 31 December 2010, there is no recognised or unrecognised deferred income tax liability (2009: \$Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and jointly controlled entities, as the Group has no liability for additional taxation should such amounts be remitted.



(g) Tax consolidation legislation

STW Communications Group Limited and its wholly-owned subsidiaries are a tax-consolidated group. The accounting policy in relation to this legislation is set out in note 1(g).

On adoption of the tax consolidation legislation, the entities in the tax-consolidated group entered into a tax sharing agreement, which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, STW Communications Group Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate STW Communications Group Limited for any current tax payable assumed and are compensated by STW Communications Group Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to STW Communications Group Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables.

NOTE 7. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share has been described in Notes 1(x)(i) and 1(x)(ii), respectively.

The following reflects the income and share data used in the total operations' basic and diluted earnings per share computations:

	Consolidated Entity	
	2010 \$'000	2009 \$'000
Net profit attributable to ordinary equity holders of the Company from continuing operations for basic earnings per share	38,663	21,780
Effect of dilution:		
Dilutive adjustments to net profit	–	–
Net profit attributable to ordinary equity holders of the Company for diluted earnings per share	38,663	21,780
	Number	Number
Weighted average number of ordinary shares for basic earnings per share	357,591,782	297,480,362
Impact of ESP shares where earning per share growth performance targets have been met	–	–
Weighted average number of ordinary shares for diluted earnings per share	357,591,782	297,480,362
	Cents	Cents
Earnings per share for profit from continuing operations attributable to ordinary equity holders of the Company		
Basic earnings per share	10.81	7.32
Diluted earnings per share	10.81	7.32



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 10 (CONTINUED)

NOTE 7. EARNINGS PER SHARE (CONTINUED)

Information concerning the classification of securities

Performance shares granted to employees are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The performance shares have not been included in the determination of basic earnings per share. Details relating to performance shares are set out in Note 26.

NOTE 8. DIVIDENDS PAID AND PROPOSED

	Consolidated Entity	
	2010 \$'000	2009 \$'000
Declared and paid during the year		
Dividends on ordinary shares:		
Final franked dividend for 2009: 2.0 cents per share (2008: 3.2 cents per share)	7,151	6,158
Interim franked dividend for 2010: 2.3 cents per share (2009: 1.5 cents per share)	8,226	5,362
Dividends paid pursuant to the ESP	249	1,005
	15,626	12,525
In addition to the above dividends, since the end of the year the Directors have recommended the payment of a final dividend of 4.2 cents (2009: 2.0 cents) per fully paid ordinary share, fully franked at 30%. The aggregate amount of the proposed final dividend payable 21 April 2011 (2010: 12 May 2010), out retained earnings, but not recognised as a liability, is:	15,022	7,286
Franking credit balance		
The franked portions of dividends recommended after 31 December 2010 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 31 December 2011.		
Franking credits available for subsequent years based upon a tax rate of 30%	20,270	6,140
The above amounts represent the balance of the franking account as at the end of the year, adjusted for:		
– franking credits that will arise from the payment of the current tax liability.		
– franking credits that will arise from current dividends receivable.		
– franking debits that will arise from the payment of dividends provided at year end.		
Impact on franking account balance of dividends declared but not recognised	6,438	3,123



NOTE 9. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	Consolidated Entity	
	2010 \$'000	2009 \$'000
Cash on hand	34	233
Cash at bank	41,350	38,717
Cash on deposit	2,385	3,084
	43,769	42,034
Reconciliation from net profit to the net cash flows from operating activities		
Net profits	49,446	31,672
Adjustments		
Share of jointly controlled entities' net profits, net of dividends and trust distributions received	(2,188)	(566)
Depreciation and amortisation expense	5,871	5,744
ESP expense non-cash	611	–
Interest expense on deferred consideration payable	2,590	2,474
Net loss on disposal of non-current assets	374	1,079
Impairment costs	–	8,879
Gain on acquisition of non-current assets	(838)	–
Changes in assets and liabilities		
(Increase)/decrease in receivables	(29,978)	19,010
(Increase)/decrease in other current receivables	(1,906)	1,112
(Increase)/decrease in deferred tax assets	(446)	814
Increase in trade and other payables	57,484	9,379
Increase/(decrease) in current income tax payable	12,763	(3,773)
(Decrease)/increase in provisions	(1,230)	742
(Decrease)/increase in other liabilities	(2,909)	2,656
Net cash flows from operating activities	89,644	79,222



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 10 (CONTINUED)

NOTE 10. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

	Consolidated Entity	
	2010 \$'000	2009 \$'000
Trade receivables	150,784	114,168
Provision for doubtful receivables	(625)	(1,195)
	150,159	112,973
Other receivables	3,497	8,502
	153,656	121,475

(A) TRADE AND OTHER RECEIVABLES

Trade and other receivables are not interest bearing and are generally on 30-day to 60-day terms.

(B) IMPAIRED TRADE RECEIVABLES

As at 31 December 2010 current trade receivables of the Group with a nominal value of \$625,000 (2009: \$1,195,000) were impaired. The individually impaired receivables mainly relate to customers, which are in an unexpectedly difficult economic situation. It was assessed that a portion of the receivables is expected to be recovered.

Movements in the provision for impairment of receivables are as follows:

	Consolidated Entity	
	2010 \$'000	2009 \$'000
Balance at the beginning of the year	1,195	1,592
Provision for impairment recognised	177	276
Receivables written off as uncollectible	(747)	(673)
Balance at the end of the year	625	1,195

The creation and release of the allowance for impaired receivables has been included in other expenses in the income statement.

Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

(C) PAST DUE BUT NOT IMPAIRED

As of 31 December 2010, trade receivables of \$13,326,000 (2009: \$19,679,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:



	Consolidated Entity	
	2010 \$'000	2009 \$'000
1 - 30 days	98,643	58,893
31 - 60 days	38,815	35,595
Greater than 60 days	12,701	18,485
	150,159	112,973

There are no trade receivables that have had renegotiated terms that would otherwise, without that renegotiation, have been past due or impaired.

Based on the credit history of trade receivables not past due or past due and not impaired, the Group believes that these amounts will be received when due.

The other classes within trade and other receivables do not contain impaired assets and the Group believes that these amounts will be fully recovered.

Related party transactions have been made on normal commercial terms and conditions and at market rates. The average interest rate on loans during the year was 9% per annum (2009: 10% per annum).

Outstanding balances are unsecured and are repayable in cash.

(D) FOREIGN EXCHANGE AND INTEREST RATE RISK

Information about the Group's exposure to foreign exchange risk and interest rate risk in relation to trade and other receivables is provided in Note 29.

(E) FAIR VALUE AND CREDIT RISK

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above.

The Group does not hold any collateral as security. Refer to Note 29 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 10 (CONTINUED)

NOTE 11. CURRENT ASSETS - OTHER CURRENT ASSETS

	Consolidated Entity	
	2010 \$'000	2009 \$'000
Prepayments	2,143	4,047
Recoverable costs in progress	–	235
	2,143	4,282

NOTE 12. NON-CURRENT ASSETS - OTHER RECEIVABLES

	Consolidated Entity	
	2010 \$'000	2009 \$'000
Amounts receivable from jointly controlled entities	14,215	13,896
Provision for doubtful receivables	(1,362)	(1,121)
	12,853	12,775

(A) RELATED PARTY RECEIVABLES

For terms and conditions relating to related party receivable, refer to Note 32.

The consolidated entity and jointly controlled entities maintain loan accounts, which can fluctuate throughout the year. There are no fixed terms of repayment on these amounts, some of which attract interest at commercial rates.

(B) FAIR VALUE

The carrying amounts of receivables are assumed to approximate their fair value.

(C) RISK EXPOSURE

Information about the Group's exposure to credit risk, foreign exchange and interest rate risk is provided in Note 29.

NOTE 13. NON-CURRENT ASSETS - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Consolidated Entity	
	2010 \$'000	2009 \$'000
Investments in jointly controlled entities	100,326	98,550



Name	Principal Activity	Ownership 2010	Interest 2010	Country of Incorporation/ Formation
Adcast Unit Trust (i)	Automated marketing	–	40%	Australia
Campaigns and Communications Group Pty Limited	Campaign management	20%	20%	Australia
Catalyst Advertising Pty Limited	Advertising	50%	50%	Australia
Corporate Film Company Pty Limited	Production	50%	50%	Australia
Evocatif Pty Limited	Communications	49%	49%	Australia
i2i Communications Pty Limited	Communications	49%	49%	Australia
J. Walter Thompson International Limited (New Zealand)	Advertising	49%	49%	New Zealand
Jamshop Pty Limited	Advertising	40%	40%	Australia
M Media Group Pty Limited and its subsidiaries	Media buying	47.5%	47.5%	Australia
Marketing Communications Holdings Australia Pty Limited and its subsidiaries	Advertising and communications	49%	49%	Australia
Massive Media Pty Limited and its subsidiaries	Website design	49%	49%	Australia
New Dialogue Pty Limited	Media planning	49%	49%	Australia
Ogilvy Public Relations Worldwide Pty Limited and its subsidiaries	Public relations	49%	49%	Australia
Paragon Design Group Pty Limited	Advertising	49%	49%	Australia
Spinach Advertising Pty Limited	Advertising	20%	20%	Australia
Straterjee Pty Limited	Consulting	25%	25%	Australia
TaguchiMarketing Pty Limited	E-mail marketing	20%	20%	Australia
TCO Pty Limited	Branded content production	40%	40%	Australia
Torque Australia Pty Limited (ii)	Data management	–	40%	Australia
White Digital Pty Limited	Digital marketing	49%	49%	Australia

(i) The Company purchased additional units in this entity during the year, resulting in the acquisition of a controlling interest. As a result, this investment has been consolidated as a subsidiary in the current year and is no longer accounted for under the equity method.

(ii) The Company disposed its interest in this entity during the year.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 10 (CONTINUED)

NOTE 13. NON-CURRENT ASSETS - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(A) REPORTING DATES

All jointly controlled entities have prepared accounts as at 31 December 2010 for the purpose of preparing the consolidated financial statements. As such, there is no difference in the reporting dates or periods between the investor and the investees.

(B) PUBLISHED FAIR VALUES

The jointly controlled entities are not listed on any public exchange and therefore, there are no published quotation prices for the fair values of the investments.

(C) SUMMARISED FINANCIAL INFORMATION FOR JOINTLY CONTROLLED ENTITIES

The following table illustrates summarised information of the investments in jointly controlled entities as at 31 December:

	Consolidated Entity	
	2010 \$'000	2009 \$'000
Share of jointly controlled entities' balance sheet items:		
Assets	117,303	111,403
Liabilities	(91,097)	(87,101)
Net assets	26,206	24,302
Share of jointly controlled entities' revenue and profits		
Revenue	63,150	56,667
Profits before income tax	12,666	11,138
Income tax expense	(3,617)	(3,262)
Profits after income tax	9,049	7,876

(D) DIVIDENDS AND TRUST DISTRIBUTIONS RECEIVED

During the year, the consolidated entity received dividends and trust distributions of \$6,861,000 (2009: \$7,310,000) from its jointly controlled entities.

(E) COMMITMENTS

The consolidated entity's share of the jointly controlled entities' commitments is disclosed in Note 34.



NOTE 14. NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS

	Consolidated Entity	
	2010 \$'000	2009 \$'000
Shares in listed entities – at fair value	228	225



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 10 (CONTINUED)

NOTE 15. NON-CURRENT ASSETS - PLANT AND EQUIPMENT

	Consolidated Entity	
	2010 \$'000	2009 \$'000
Plant and equipment		
At cost	30,309	26,784
Accumulated depreciation	(10,493)	(6,676)
	19,816	20,108
Leased assets		
At cost	160	426
Accumulated amortisation	(70)	(192)
	90	234
Total plant and equipment	19,906	20,342

RECONCILIATIONS

Reconciliations of the carrying amount of each class of plant and equipment during the year are set out below:

	Plant and Equipment \$'000	Leased Assets \$'000	Total \$'000
At 1 January 2009			
At cost	23,572	330	23,902
Accumulated depreciation and amortisation	(3,133)	(157)	(3,290)
Net carrying amount	20,439	173	20,612

Year 31 December 2009

Balance at the beginning of the year	20,439	173	20,612
Additions	4,174	33	4,207
Acquisitions of business combinations (Note 33)	692	48	740
Disposals	(243)	–	(243)
Depreciation and amortisation expense	(4,954)	(20)	(4,974)
Balance at the end of the year	20,108	234	20,342

At 31 December 2009

At cost	26,784	426	27,210
Accumulated depreciation and amortisation	(6,676)	(192)	(6,868)
Net carrying amount	20,108	234	20,342



Year 31 December 2010	Plant and Equipment \$'000	Leased Assets \$'000	Total \$'000
Balance at the beginning of the year	20,108	234	20,342
Additions	5,254	–	5,254
Acquisitions of business combinations (Note 33)	5	–	5
Disposals	(525)	(125)	(650)
Depreciation and amortisation expense	(5,026)	(19)	(5,045)
Balance at the end of the year	19,816	90	19,906

At 31 December 2010

At cost	30,309	160	30,469
Accumulated depreciation and amortisation	(10,493)	(70)	(10,563)
Net carrying amount	19,816	90	19,906

(A) LEASED ASSETS

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 31 December 2010 is \$90,000 (2009: \$234,000).

(B) ASSETS PLEDGED AS SECURITY

Leased assets and assets under hire purchase contracts are pledged as security for the related financial lease and hire purchase liabilities.

NOTE 16. NON-CURRENT ASSETS - DEFERRED TAX ASSETS

	Consolidated Entity	
	2010 \$'000	2009 \$'000
Provisions	2,177	2,127
Doubtful debts	602	382
Accruals	1,012	1,992
Deferred interest rate hedge	80	572
Tax losses carried forward	1,201	771
Other	3,779	2,562
Gross deferred tax assets	8,851	8,406
Movements:		
Opening balance	8,406	9,136
Credited to income statement	937	31
Charged to equity	(492)	(761)
Closing balance	8,851	8,406



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 10 (CONTINUED)

NOTE 17. NON-CURRENT ASSETS – INTANGIBLE ASSETS

	Consolidated Entity	
	2010 \$'000	2009 \$'000
Goodwill	321,898	324,610
Brand name	57,027	57,027
Intellectual property	3,922	-
Total intangible assets	382,847	381,637

RECONCILIATIONS

Reconciliations of the carrying amount of each class of intangible asset at the beginning and end of the current year are set out below:

	Goodwill \$'000	Brand name \$'000	Intellectual property \$'000	Total \$'000
At 1 January 2009				
Gross carrying amount – at cost	283,895	57,027	2,478	343,400
Accumulated impairment	(226)	-	(1,856)	(2,082)
Net carrying amount	283,669	57,027	622	341,318

Year 31 December 2009

Balance at the beginning of the year	283,669	57,027	622	341,318
Acquisitions of business combinations (Note 33)	20,607	-	-	20,607
Other amounts recognised from existing business combinations	23,375	-	-	23,375
Impairment and amortisation expense	(3,041)	-	(622)	(3,663)
Balance at the end of the year	324,610	57,027	-	381,637

At 31 December 2009

Gross carrying amount – at cost	327,877	57,027	2,478	387,382
Accumulated amortisation and impairment	(3,267)	-	(2,478)	(5,745)
Net carrying amount	324,610	57,027	-	381,637

Year 31 December 2010

Balance at the beginning of the year	324,610	57,027	-	381,637
Acquisitions of business combinations (Note 33)	288	-	3,007	3,295
Other amounts recognised from existing business combinations	(820)	-	1,741	921
Net exchange differences on translation of financial reports	(2,180)	-	-	(2,180)
Impairment and amortisation expense	-	-	(826)	(826)
Balance at the end of the year	321,898	57,027	3,922	382,847



At 31 December 2010	Goodwill \$'000	Brand name \$'000	Intellectual property \$'000	Total \$'000
Gross carrying amount – at cost	325,165	57,027	4,748	386,940
Accumulated amortisation and impairment	(3,267)	–	(826)	(4,093)
Net Book Value	321,898	57,027	3,922	382,847

(A) AMORTISATION CHARGE

The amortisation charge of \$826,000 (2009: \$627,000) is recognised in the depreciation and amortisation expense in the income statement.

(B) IMPAIRMENT CHARGE

There was no impairment charge in the income statement for the year ended 31 December 2010.

During the year ended 31 December 2009, an impairment charge of \$3,041,000 was recognised in the income statement. The impairment charge related to the brand development and management CGU, which was impacted by the soft economic conditions.

(C) IMPAIRMENT TESTS FOR CASH GENERATING UNITS

Goodwill is allocated to the Group's cash generating units ("CGUs") at the lowest levels for which there are separately identifiable cash flows.

The recoverable amount of a CGU is determined based on value-in-use calculation using a five-year cash flow projection and a terminal value. These calculations use cash flow projections based on financial budgets approved by management for the year ending 31 December 2011. Cash flows beyond 2011 are extrapolated using the estimated growth rates. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. The cash flows are discounted to present values using the weighted average cost of capital.

During the year, the Company adjusted the aggregation of assets for identifying CGU groups to reflect the lowest level of management of the groups of assets and the synergies of the business groupings. The aggregation of assets in CGU groups continues to be determined based on service offering.

CGU GROUP ALLOCATION OF INTANGIBLE ASSETS

The Consolidated entity carrying amount of intangible assets for each of the CGU groups identified is as follows:

	2010 \$'000	2009 \$'000
Mass communications	188,568	191,467
Media and digital asset management	64,069	60,427
Brand development and management	84,060	86,943
Specialist communications	46,150	42,800
Total intangible assets	382,847	381,637



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 10 (CONTINUED)

NOTE 17. NON-CURRENT ASSETS – INTANGIBLE ASSETS (CONTINUED)

(D) KEY ASSUMPTIONS USED FOR VALUE-IN-USE CALCULATIONS

In performing the value-in-use calculations for each CGU, the Group has applied the following assumptions:

- in performing the value in use calculations for each CGU, post-tax discount rates have been applied to discount the forecast future attributable post-tax cash flows. The rate used to discount the forecast future attributable post-tax cash flows is 11.2% (2009: 10.1% to 10.6%);
- the growth rate used to extrapolate cash flows beyond the budget period is 3% (2009: 2.4%);
- the terminal value of 3% was used for cash flow from year 6 onwards for all CGUs; and
- gross margins are based on the following year's budget, which is approved by the Board. These are determined by reference to average gross margins achieved in the year immediately before the budgeted year, then adjusted for expected movements.

IMPACT OF POSSIBLE CHANGES IN KEY ASSUMPTIONS

The calculations of value-in-use are sensitive to the discount rates, the medium-term and long term growth rates applied to projected cash flows and loss of major customers.

Projected cash flows:

The projected cash flows are derived from budgets to be approved by the Directors for the next financial year which reflect the best estimate of the CGU group's cash flows at the time. The budgets are derived from a combination of historical trading performance and expectations of the CGU group based on market and life cycle factors. Projected cash flows can differ from future actual results of operations and cash flows.

If a growth rate and terminal rate of 1% was consistently applied across all CGUs, the recoverable amount of the mass communications unit and brand development and management unit would fall below their carrying amounts.

Growth and discount rates:

These assumptions have been used for the analysis of each CGU within the business segment. The weighted average growth rates used are consistent with forecasts included in industry reports. The discount rates used are post-tax and reflect specific risks relating to the relevant units.

Discount rates reflect management's estimate of time value of money and the risks specific to each business unit that are not already reflected in the cash flows. In determining appropriate discount rates for each business unit, regard has been given to the weighted average cost of capital of the Group and specific cash generating business risk specific to that business segment. The same discount rate for all business units is considered appropriate. All business segments are based on providing services to similar customers, hence similar level of market risk.

Management recognises that the actual time value of money may vary to what it has estimated. Management notes that the discount rate would have to increase to 13% (post tax) for the recoverable amount of the mass communications unit valuation to fall below its carrying amount. The other segments continue to have valuations in excess of the carrying value with these changes.

Loss of a major customer:

The assumption around the loss of a major customer is important because as well as using historical trends, management expects the Group's market share of each business segment to be stable over future periods. The loss of a significant customer in any business segment will severely impact on the ability of that segment to maintain expected earnings and cash flows. Each major customer would have a different impact on earnings and profits, so it is not appropriate to discuss sensitivity on loss of a major customer.

**NOTE 18. NON-CURRENT ASSETS - OTHER NON-CURRENT ASSETS**

	Consolidated Entity	
	2010	2009
	\$'000	\$'000
Prepayments	529	166
Other non-current assets	2,158	615
	2,687	781

NOTE 19. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	Consolidated Entity	
	2010	2009
	\$'000	\$'000
Trade payables	49,485	42,991
Interest rate hedge liabilities - Note 19(d)	266	1,907
Sundry and other payables	117,316	79,588
Amounts payable to other related parties	–	1,150
Deferred cash settlement for controlled and jointly controlled entities acquired	28,560	15,668
Deferred income	20,439	624
	216,066	141,928



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 10 (CONTINUED)

NOTE 19. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES (CONTINUED)

(A) RELATED PARTY PAYABLES

For terms and conditions relating to related party payables, refer to Note 32.

(B) TRADE, SUNDRY AND OTHER PAYABLES

Trade payables are not interest bearing and are normally settled on 60-day terms. Sundry and other payables are also not interest bearing and have an average term of two months.

(C) NET GST PAYABLES

The GST payables and receivables are netted. Net GST payables are remitted to the appropriate taxation authority as required.

(D) INTEREST RATE HEDGE LIABILITIES

The notional contract value of the interest rate hedge derivatives held at 31 December 2010 was as follows:

	Consolidated Entity	
	2010 \$'000	2009 \$'000
Total mark to market liability	266	1,907

The Company entered into an interest rate cap of \$85 million that matured on 6 December 2010 and an interest rate cap of \$25 million that matures on 14 July 2011.

The Company entered into an interest rate swap of \$35 million that matured on 6 December 2010 and an interest rate swap of \$10 million that matures on 11 July 2011.

(E) INSTRUMENTS USED BY THE GROUP

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates in accordance with the Group's financial risk management policies (refer to Note 29).

Interest rate swap contracts – cash flow hedges

Bank loans of the Group currently bear an average variable interest rate of 5.5% (2009:5.2%). It is policy to protect part of the loans from exposure to increasing interest rates. Accordingly, the Group has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates

The fixed interest rates range between 7.67% and 7.7%.

The contracts require settlement of net interest receivable or payable each 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis.

The gain or loss from remeasuring the hedging instruments at fair value is recognised in other comprehensive income and deferred in equity in the interest rate hedge reserve, to the extent that the hedge is effective. It is reclassified into income statement when the hedged interest expense is recognised. There was no hedge ineffectiveness in the current or prior year.



NOTE 20. CURRENT LIABILITIES - BORROWINGS

		Consolidated Entity	
		2010 \$'000	2009 \$'000
Secured – at amortised cost	Notes		
Finance lease liability	23	13	530
Bank loan		3,450	–
		3,463	530

(A) SECURITY AND FAIR VALUE DISCLOSURES

Information about the security relating to each of the secured liabilities and the fair value of each of the borrowings is provided in Note 23.

(B) RISK EXPOSURE

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in Note 29.

NOTE 21. CURRENT LIABILITIES - PROVISIONS

	Consolidated Entity	
	2010 \$'000	2009 \$'000
Employee benefits	6,586	7,998

NOTE 22. NON-CURRENT LIABILITIES - OTHER PAYABLES

	Consolidated Entity	
	2010 \$'000	2009 \$'000
Deferred cash settlement for controlled and jointly controlled entities acquired	14,063	43,815
Sundry and other payables	96	2,826
Amounts payable to jointly controlled entities	3,264	–
	17,423	46,641

(A) RELATED PARTY PAYABLES

For terms and conditions relating to related party payables, refer to Note 32.

(B) TRADE, SUNDRY AND OTHER PAYABLES

Trade payables are not interest bearing and are normally settled on 60-day terms. Sundry and other payables are also not interest bearing and have an average term of two months.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 10 (CONTINUED)

NOTE 23. NON-CURRENT LIABILITIES - BORROWINGS

	Consolidated Entity	
	2010 \$'000	2009 \$'000
Secured – at amortised cost		
Non-current		
Finance lease liability	–	1,897
Bank loan	73,800	111,151
	73,800	113,048
Financing facilities available		
At reporting date, the following financing facilities had been negotiated and were available:		
Available at balance date		
Total facilities - bank loan	174,239	266,301
Total facilities - finance leases	13	2,427
Used at balance date		
Facilities used at balance date - bank loan	77,250	111,151
Facilities used at balance date - finance leases	13	2,427
Unused at balance date		
Facilities unused at balance date - bank loan	96,989	155,150
Facilities unused at balance date - finance leases	–	–



(A) SECURED LOANS

(i) Australian core banking facilities

In December 2010, the Company entered into a new bilateral agreement provided by two banks for a total of \$178,000,000. This facility is split between a debt facility of \$170,000,000 and guarantee facility of \$8,000,000. The earliest date for maturity of these facilities is January 2014. The Company has an option to extend the facilities for an additional 12 months.

In December 2010, the existing bilateral facility was repaid and cancelled and total debt facilities of \$262,000,000 were replaced by the new \$178,000,000 long-term bilateral facility.

Bank facilities totalling \$178,000,000 are secured by a cross guarantee and indemnity by and between the Company and Singleton Ogilvy & Mather (Holdings) Pty Limited and its wholly-owned controlled entities.

(ii) New Zealand banking facilities

The Company has access to a New Zealand bank facility of \$4,239,000 (2009: \$4,301,000), which expires June 2011. Bank loans are secured by a guarantee and indemnity provided by Ogilvy New Zealand Limited.

The loans have been classified as either current or non-current based on the expiry date of the loan facility agreements.

(B) FINANCE LEASE LIABILITIES

There was no finance leases taken out during 2010 (2009: Nil).

Refer to Note 34(c) for details of lease terms and conditions. The finance lease liability is secured by the assets leased.

The finance lease liability represents the acquisition by the consolidated entity of plant and equipment by means of finance leases.

Finance lease liabilities are effectively secured as the rights to the consolidated entity acquired plant and equipment recognised in the financial statements revert to the lessor in the event of default.

(C) INDEMNITY GUARANTEE FACILITY

The indemnity guarantee facility is in place to support financial guarantees. Specific guarantee amounts are \$7,171,000 (2009: \$7,663,000) supporting property rental and other obligations.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 10 (CONTINUED)

NOTE 23. NON-CURRENT LIABILITIES - BORROWINGS (CONTINUED)

(D) ASSETS PLEDGED AS SECURITY

The carrying amount of assets pledged as security for current secured loans is as follows:

	Consolidated Entity	
	2010 \$'000	2009 \$'000
Current assets		
Cash and cash equivalents	27,843	25,254
Trade and other receivables	42,582	53,499
Current tax assets	–	4,436
Other current assets	5,130	2,407
Total current assets	75,555	85,596
Non-current assets		
Other receivables	20,440	11,669
Investments accounted for using the equity method	100,326	98,550
Other financial assets	221,739	175,427
Plant and equipment	14,331	16,584
Deferred tax assets	6,211	7,606
Intangible assets	173,469	211,788
Other non-current assets	–	544
Total non-current assets	536,516	522,168
Total assets	612,071	607,764

(E) RISK EXPOSURE

Information about the Group's exposure to interest rate and foreign currency changes is provided in Note 29.

**NOTE 24. NON-CURRENT LIABILITIES - DEFERRED TAX LIABILITIES**

	Consolidated Entity	
	2010 \$'000	2009 \$'000
Accrued income	-	212
Prepayments	236	121
Plant and equipment	81	162
Executive share plan	6,401	6,401
Gross deferred tax liability	6,718	6,896

Movements:

Opening balance	6,896	6,793
(Credited)/charged to the income statement	(178)	103
Closing balance	6,718	6,896

NOTE 25. NON-CURRENT LIABILITIES - PROVISIONS

	Consolidated Entity	
	2010 \$'000	2009 \$'000
Employee benefits	2,402	2,220

NOTE 26. ISSUED CAPITAL

	2010	2009	2010	2009
	Number of Shares	Number of Shares	\$'000	\$'000
Ordinary shares issued and fully paid - parent entity	364,310,964	364,310,964	297,435	297,435
Shares under the executive share plan	(6,652,333)	(6,752,333)	(21,249)	(21,335)
Total issued capital - consolidated	357,658,631	357,558,631	276,186	276,100

(A) MOVEMENT IN ORDINARY SHARES ON ISSUE

	2010	2010	2009	2009
	Number of Shares	\$'000	Number of Shares	\$'000
At 1 January	364,310,964	297,435	199,280,485	224,214
Rights issue	-	-	165,030,479	73,221
At 31 December for parent entity	364,310,964	297,435	364,310,964	297,435



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 10 (CONTINUED)

NOTE 26. ISSUED CAPITAL (CONTINUED)

(B) TERMS AND CONDITIONS OF ORDINARY SHARES

The Company's shares have no par value. Ordinary shares have the right to receive dividends as declared and, in the event of the winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

(C) RIGHTS ISSUE

The Company raised additional capital during 2009 by way of an accelerated pro-rata rights issue at an issue price of \$0.46 per share. The Rights Issue resulted in the issue of 165,030,479 new securities for total proceeds of \$75,914,000 (prior to the costs of the raising of \$2,693,000). No rights issues were undertaken during the year ended 31 December 2010.

(D) UNVESTED EMPLOYEE INCENTIVE SHARES – EXECUTIVE SHARE PLAN SHARES

The Company has an executive incentive scheme, the executive share plan, under which rights to the Company's shares have been granted to senior executives.

Shares in the Company that are held by the STW Executive Share Plan Trust for the purpose of issuing shares under the executive incentive scheme are deducted from equity (refer to Note 30 for further information).

Movement in performance shares	2010	2010	2009	2009
	Number of Shares	\$'000	Number of Shares	\$'000
At 1 January	6,752,333	21,335	8,793,333	27,123
Share allocated to executives	(100,000)	(86)	(2,041,000)	(5,788)
At 31 December for parent entity	6,652,333	21,249	6,752,333	21,335

(E) CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that entities in the Company will be able to continue as going concerns while maximising the return to shareholders through the optimisation of net debt and total equity balances.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital structure of Company is monitored using net debt to EBITDA (earnings before interest, tax, depreciation and amortisation) ratio. The ratio is calculated as net debt divided by underlying EBITDA. Net debt is calculated as total interest bearing liabilities, plus deferred cost of acquisition less cash and cash equivalents.

The net debt to EBITDA ratios for the Group at 31 December 2010 and 31 December 2009 are as follows:

	Consolidated Entity	
	2010 \$'000	2009 \$'000
Total borrowings	77,263	113,578
Add: deferred cost of acquisition	42,623	59,483
Less: cash and cash equivalents (note 9)	(43,769)	(42,034)
Net debt	76,117	131,027
EBITDA #	80,422	73,898
Net Debt to EBITDA ratio	0.95	1.77

For the purpose of the net debt to EBITDA ratio, underlying EBITDA is adjusted for specific items of a non-recurring nature.



NOTE 27. RESERVES

RESERVES

	Consolidated Entity	
	2010 \$'000	2009 \$'000
Equity settled share-based payment reserve	525	–
Brand name revaluation reserve	16,275	16,275
Interest rate hedge reserve	(186)	(1,335)
Foreign currency translation reserve	(7,236)	(3,691)
	9,378	11,249

Movements

Equity settled share based payment reserve

Opening balance	–	5778
Cost of share-based payments	611	–
Issue of executive share plan costs	(86)	(5,778)
Closing balance	525	–

Interest rate hedge reserve

Opening balance	(1,335)	(3,111)
Revaluation - gross	1,641	2,537
Deferred tax	(492)	(761)
Closing balance	(186)	(1,335)

Foreign currency translation reserve

Opening balance	(3,691)	(2,142)
Exchange loss on translation of foreign operations	(3,545)	(1,549)
Closing balance	(7,236)	(3,691)

NATURE AND PURPOSE OF RESERVES

(i) Equity settled share-based payments reserve

The share-based payments reserve is used to recognise the amortised portion of the fair value of options issued but not exercised.

(ii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in Note 1(e). The reserve is recognised in the income statement after disposal of the net investment.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 10 (CONTINUED)

NOTE 27. RESERVES (CONTINUED)

(iii) Interest rate hedge reserve

The interest rate hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised in other comprehensive income, as described in Note 1(n). Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

(iv) Brand name revaluation reserve

The brand name revaluation reserve is used to record the net upward revaluation of acquired brand names.

NOTE 28. RETAINED EARNINGS

	Consolidated Entity	
	2010 \$'000	2009 \$'000
Opening balance	39,137	29,882
Net profit	38,663	21,780
Dividends	(15,626)	(12,525)
Closing balance	62,174	39,137

NOTE 29. FINANCIAL INSTRUMENTS

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. There has been no significant change in the Group's risk profile from the prior year. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes i.e. not as trading or other speculative instruments.

The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange risks; and ageing analysis for credit risk.

Risk management is carried out in accordance with ageing policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as interest rate risk, credit risk, use of derivative financial instruments, non-derivative financial instruments and investment of excess liquidity.



The Group holds the following financial instruments:

	Consolidated Entity	
	2010 \$'000	2009 \$'000
Financial assets		
Cash and cash equivalents	43,769	42,034
Trade and other receivables	166,509	134,250
Other financial assets	228	225
	210,506	176,509
Financial liabilities		
Trade and other payables (excluding deferred cash settlement and derivatives)	190,600	127,179
Deferred cash settlement	42,623	59,483
Secured finance lease liability	13	2,427
Secured bank loan	77,250	111,151
Derivative financial instruments	266	1,907
	310,752	302,147

(A) MARKET RISK

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk on sales, purchases and borrowings that are denominated in a currency other than in the respective functional currencies of the Company. The Group's income and operating cash flows are not materially exposed to any particular foreign currency.

As the Group operates primarily in Australia, it is the Group's policy not to hedge against foreign currency risk as exposure to this risk is considered to be minimal.

All borrowings are in the functional currency of the borrowing entity.

The Group's exposure to foreign exchange risk at the reporting period was as follows:



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 10 (CONTINUED)

NOTE 29. FINANCIAL INSTRUMENTS (CONTINUED)

	2010 US\$	2009 US\$
Trade receivables	347	232
Trade payables	(91)	(35)
	256	197

Sensitivity

Based on the financial instruments held at 31 December 2010, had the Australian dollar weakened/strengthened by 10% against the currencies detailed in the above table with all other variables held constant, the Group's post-tax profit for the year would have been \$26,000 higher/lower, (2009: \$20,000 higher/lower), mainly as a result of foreign exchange gains/(losses) on translation of foreign currency denominated receivables in the above table.

(iii) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from long-term borrowings with variable interest rates. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group's policy requires interest rate swaps and interest rate caps to be entered into to manage cash flow risks associated with borrowings with variable interest rates. The current policy is for between 20% and 50% of borrowings to be hedged through derivative contracts.

These interest rate hedges are repriced on a quarterly basis in advance and settled on a quarterly basis in arrears. The floating rate on the interest rate derivatives is based on the Australian BBSY and BBSW. The Group settles the difference between the fixed and floating interest rate on a net basis. At 31 December 2010, the interest rate hedges were marked to market and gave rise to a mark to market liability at that date of \$266,000 (2009: \$1,907,000 (refer to Note 19(d))).

All interest rate hedges are designated as cash flow hedges in order to reduce the Group's exposure resulting from variable interest rates on borrowings. The amount deferred in equity as a result of revaluation of the interest rate hedges is recognised in the income statement over the period of the hedge contracts.

As at the reporting date, the Group had the following variable rate borrowings:

Consolidated entity	2010 Weighted average interest rate % p.a.	2010 Balance \$'000	2009 Weighted average interest rate % p.a.	2009 Balance \$'000
Bank overdrafts and bank loans	5.5%	77,250	5.2%	111,151
Interest rate swaps (notional principal amount)	7.70%	(10,000)	7.68%	(45,000)
Net exposure to cash flow interest rate risk		67,250		66,151

Note that interest rate swap totalling \$35 million expired on 6 December 2010. Additional interest rate swaps have been entered into in January 2011, totalling \$50 million with a weighted average interest rate of 5.49% and expiring in January 2014.



Sensitivity

At 31 December 2010, if interest rates had changed by - /+100 basis points from the year-end rates with all other variables held constant, post-tax profit for the year would have been \$471,000 lower/higher (2009: change of 100 bps: \$463,000 mainly as a result of higher/lower interest expense on borrowings. Equity would have been \$471,000 lower/higher (2009: \$463,000 lower/higher).

(B) CREDIT RISK

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in a financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. Customers that do not meet minimum credit criteria are required to pay upfront. Customers who fail to meet their account terms are reviewed for continuing creditworthiness.

Trade receivables consist of a large number of clients, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of trade receivables and other receivables balances are monitored on an ongoing basis, with the result that the Group's exposure to bad debts is not significant.

Credit risk on derivative contracts is minimised by principally dealing with large banks with an appropriate credit rating.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised in Note 10.

The Group does not consider that there is any significant concentration of credit risk.

(C) LIQUIDITY RISK

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

The Group's overall objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, finance leases and hire purchase contracts. Surplus funds are generally only invested in instruments that are tradeable in highly liquid markets.

The Group also manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 10 (CONTINUED)

NOTE 29. FINANCIAL INSTRUMENTS (CONTINUED)

MATURITIES OF FINANCIAL LIABILITIES

The table below provides management's expectation of the maturity analysis of financial liabilities for the consolidated entity. The maturity presented for the secured bank loan is on the basis of the term of the committed bank facility notwithstanding that the outstanding amount is subject to period rollovers of one month. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Maturity					Total contractual cash flows \$'000	Carrying amount (assets)/ liabilities \$'000
Contractual maturities of financial liabilities As at 31 December 2010	≤6 Months \$'000	6-12 Months \$'000	1-2 Years \$'000	2-5 Years \$'000	Over 5 Years \$'000		
Non-derivatives							
Trade and other payables (excluding deferred cash settlement below)	187,240	–	3,360	–	–	190,600	190,600
Deferred cash settlement	24,907	1,736	7,855	10,207	–	44,705	42,623
Secured finance lease liability	14	–	–	–	–	14	13
Secured bank loan	–	3,450	–	73,800	–	77,250	77,250
	212,161	5,186	11,215	84,007	–	312,569	310,486

Derivatives

Net settled (interest rate swaps)	266	–	–	–	–	266	266
-----------------------------------	-----	---	---	---	---	-----	-----

	Maturity					Total contractual cash flows \$1000	Carrying amount (assets)/ liabilities \$'000
Contractual maturities of financial liabilities As at 31 December 2009	≤6 Months \$'000	6-12 Months \$'000	1-2 Years \$'000	2-5 Years \$'000	Over 5 Years \$'000		
Non-derivatives							
Trade and other payables (excluding deferred cash settlement below)	124,353	–	2,826	–	–	127,179	127,179
Deferred cash settlement	3,273	12,551	33,126	14,960	–	63,910	59,483
Secured Finance lease liability	344	344	756	1,367	–	2,811	2,427
Secured bank loan	–	–	111,151	–	–	111,151	111,151
	127,970	12,895	147,859	16,327	–	305,051	300,240

Derivatives

Net settled (interest rate swaps)	820	821	266	–	–	1,907	1,907
-----------------------------------	-----	-----	-----	---	---	-------	-------



(D) CASH FLOW AND FAIR VALUE INTEREST RATE RISK

The Group's income and operating cash flows are not materially exposed to changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

(E) FAIR VALUE MEASUREMENTS

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

Derivative contracts classified as held for trading are fair valued by comparing the contracted rate to the current market rate for a contract with the same remaining period to maturity.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The Group's financial assets and liabilities measured and recognised at fair value at 31 December 2010 were based on the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities measured and recognised at fair value at 31 December 2010. Comparative information has not been provided as permitted by the transitional provisions of the new rules.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 10 (CONTINUED)

NOTE 29. FINANCIAL INSTRUMENTS (CONTINUED)

As at 31 December 2010	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Consolidated entity				
Assets - shares in listed entities	228	–	–	228
Liabilities - derivatives used for hedging	–	(266)	–	(266)
Total assets/(liabilities)	228	(266)	–	(38)

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (e.g. over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for long-term debt for disclosure purposes. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2 and comprise debt investments and derivative financial instruments. In the circumstances where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in level 3.

(F) CAPITAL RISK

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group does not have a target debt to equity ratio, but has a policy of maintaining a flexible financing structure to be able to fund capital expenditure, new acquisitions and additional amounts payable in respect of past acquisitions and to pay dividends. This policy is balanced against the desire to ensure efficiency in the debt/equity structure of the Group's balance sheet in the longer term through proactive capital management programs.

Borrowing facilities are maintained with the Group's bankers that are sufficient to meet contractual cash obligations arising in the ordinary course of business, details of which are set out in Notes 20, 23 and 27.

The current borrowing facilities are subject to various debt covenants.



NOTE 30. SHARE BASED PAYMENTS

On 25 May 2004, the Company's shareholders approved the creation of an ESP. The ESP allows the Directors to allocate up to 5% of the ordinary issued shares in the Company to executives ("performance shares").

The ESP structure has been in operation since 31 December 2004.

As at 31 December 2010, 6,652,333 (2009: 6,752,333) performance shares in the Company have been issued to the STW Executive Share Plan Trust. The trust holds the performance shares and all rights and entitlements attaching to the performance shares on the executive's behalf.

The table below represents the total number of ESP performance shares allocated to executives that will vest subject to the achievement of performance conditions. Unvested performance shares will be returned to the trust. The number of performance shares allocated under the Plans are as at the date of this report and the number of shares allocated may vary subject to executives forfeiting their rights to the performance shares.

EXECUTIVE SHARE PLAN

Grant Date	Date vested and exercisable	Plan	Exercise Price	Balance at start of the year	Forfeited during the year	Exercised during the year	Balance at the end of the year	Vested and exercisable at end of the year
				Number	Number	Number	Number	Number
Consolidated - 2010								
January 2009	1 Mar 12	Base Plan	\$0.55	3,015,000	(420,000)	(100,000)	2,495,000	–
February 2010	1 Mar 13	Base Plan	\$0.69	3,810,000	(470,000)	–	3,340,000	–
February 2010	1 Mar 13	Overperformance Plan	\$0.84	714,375	(88,125)	–	626,250	–
February 2011	1 Mar 14	Base Plan	\$1.20	1,170,000	–	–	1,170,000	–
February 2011	1 Mar 14	Overperformance Plan	\$1.20	219,375	–	–	219,375	–
Total				8,928,750	(978,125)	(100,000)	7,850,625	

The assessed fair value at grant date of deferred shares granted to individuals is allocated evenly over the period from grant date to vesting date and the amount is included in the remuneration tables. Fair value at grant date is independently determined based on the market value of the shares at grant date.

Total expense from share-based payment transactions recognised during the year as part of employee benefit expense was \$611,000 (2009: Nil).



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 10 (CONTINUED)

NOTE 31. KEY MANAGEMENT PERSONNEL ("KMP") DISCLOSURES

The following persons were the Directors of the Company during the year ended 31 December 2010:

Chairman

Robert Mactier

Deputy Chairman

Russell Tate

Chief Executive Directors

Michael Connaghan

Non-executive Directors

Anne Keating (resigned 10 February 2011)

Paul Richardson

Miles Young (resigned 11 February 2010)

Ian Tsicalas

Graham Cubbin

Peter Cullinane (appointed 3 June 2010)

Kim Anderson (appointed 10 November 2010).

Other KMP

The following persons also had authority and responsibility for planning, directing and controlling the activities of the consolidated entity during the financial year:

Name	Position	Employer
Chris Savage	Chief Operating Officer	STW Communications Group Limited
Lukas Aviani	Chief Financial Officer	STW Communications Group Limited

All of the above KMP were also KMP during the year ended 31 December 2010 except as otherwise noted above.

KMP compensation

The aggregate compensation made to KMP of the Company and the Group is set out below:

	Consolidated Entity	
	2010 \$	2009 \$
Short-term employee benefits	1,772,840	2,497,123
Post-employment benefits	54,660	140,908
Share-based benefits	232,426	4,781
Total for KMP	2,059,926	2,642,812



EQUITY INSTRUMENT DISCLOSURES RELATING TO KEY MANAGEMENT PERSONNEL

(i) Performance shares

The numbers of options over ordinary shares in the Company held during the year by each Director of the Company and other KMP of the Group, including their personally related parties, are set out below:

Name	Balance at the start of the year	Granted	Exercised	Forfeited	Balance at the end of the year	Vested and exercisable	Unvested
2010							
Director							
Mike Connaghan	–	1,068,750	–	–	1,068,750	–	1,068,750
Other KMP							
Chris Savage	450,000	534,375	–	–	984,375	–	984,375
Lukas Aviani	–	249,375	–	–	249,375	–	249,375

Name	Balance at the start of the year	Granted	Exercised	Forfeited	Balance at the end of the year	Vested and exercisable	Unvested
2009							
Director							
Mike Connaghan	1,200,000	–	(420,000)	(780,000)	–	–	–
Other KMP							
Chris Savage	140,000	450,000	(60,000)	(80,000)	450,000	–	450,000
Lukas Aviani	–	–	–	–	–	–	–
Chris Thomson	280,000	450,000	–	(730,000)	–	–	–
Michael Cullen	–	450,000	–	(450,000)	–	–	–



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 10 (CONTINUED)

NOTE 31. KEY MANAGEMENT PERSONNEL ("KMP") DISCLOSURES (CONTINUED)

EQUITY INSTRUMENT DISCLOSURES RELATING TO KEY MANAGEMENT PERSONNEL (CONTINUED)

(ii) Ordinary shares

The numbers of shares in the Company held during the year by each Director of the Company and other KMP of the Group, including their personally related parties, are set out below:

Name	Balance at the start of the year	Granted during the year as compensation	Other acquisition and disposal of shares	Balance at the end of the year
2010				
Directors				
Russell Tate	4,528,726	–	(3,000,000)	1,528,726
Anne Keating (resigned 10 February 2011)	49,782	–	–	49,782
Paul Richardson	–	–	–	–
Miles Young (resigned 11 February 2010)	–	–	–	–
Robert Mactier	562,500	–	–	562,500
Ian Tsicalas	–	–	50,000	50,000
Graham Cubbin	–	–	100,000	100,000
Michael Connaghan	838,870	–	–	838,870
Peter Cullinane (appointed 3 June 2010)	4,500	–	–	4,500
Kim Anderson (appointed 10 November 2010)	–	–	–	–
Other KMP				
Chris Savage	121,875	–	–	121,875
Lukas Aviani	156	–	95,200	95,356



EQUITY INSTRUMENT DISCLOSURES RELATING TO KEY MANAGEMENT PERSONNEL (CONTINUED)

(iii) Ordinary shares (continued)

Name	Balance at the start of the year	Granted during the year as compensation	Other acquisition and disposal of shares	Balance at the end of the year
2009				
Directors				
Russell Tate	1,815,320	600,000	2,113,406	4,528,726
Anne Keating (resigned 10 February 2011)	26,550	–	23,232	49,782
Paul Richardson	–	–	–	–
Miles Young (resigned 11 February 2010)	–	–	–	–
Robert Mactier	100,000	–	462,500	562,500
Ian Tsicalas	–	–	–	–
Graham Cubbin	–	–	–	–
Michael Connaghan	838,870	–	–	838,870
Other KMP				
Chris Savage	–	60,000	61,875	121,875
Lukas Aviani	156	–	–	156



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 10 (CONTINUED)

NOTE 32. RELATED PARTY DISCLOSURES

(A) TRANSACTIONS WITH KMP

Refer to Note 31 for details of transactions with KMP.

(B) WHOLLY-OWNED GROUP

The consolidated financial statements include the financial statements of the Company and the controlled entities as listed in Note 36. The Company is the parent entity of the consolidated entity.

Transactions between the Company and other entities in the wholly-owned group during the years ended 31 December 2010 and 2009 consisted of:

- loans advanced by/repaid to the Company;
- loans advanced to/repaid by the Company;
- the payment of interest on the above loans;
- the payment of dividends and trust distributions to the Company; and
- the provision of accounting and administrative assistance.

With the exception of interest free loans provided by the Company, all other transactions were on commercial terms and conditions.

(C) JOINTLY CONTROLLED ENTITIES AND OTHER RELATED PARTIES

All material ownership interests in jointly controlled entities are disclosed in Note 13.

The consolidated entity and jointly controlled entities maintain loan accounts, which can fluctuate throughout the year. There are no fixed terms of repayment on these amounts, some of which attract interest at commercial rates. Interest income recognised in the year to 31 December 2010 was \$324,000 (2009: \$426,000). Amounts owing by and to jointly controlled entities are set out in Notes 12 and 22, respectively.



NOTE 33. BUSINESS COMBINATIONS

(A) SUMMARY OF MATERIAL ACQUISITIONS DURING THE YEAR ENDED 31 DECEMBER 2010

On 1 July 2010, STW Media Services Pty Limited ("SMS") acquired an additional 60% of Adcast Unit Trust ("Adcast"), thereby increasing SMS's ownership to 100%. Adcast provides automated marketing solutions and operates out of Melbourne.

DURING THE YEAR ENDED 31 DECEMBER 2009

On 1 January 2009, "SMS" acquired an additional 21% of I.M. Advertising Pty Limited ("I.M. Advertising"), thereby increasing SMS's ownership to 70%. I.M. Advertising is a full service advertising agency which operates out of Sydney.

On 1 January 2009, SMS acquired an additional 55% of Junior Advertising Pty Limited ("Junior"), thereby increasing SMS's ownership to 80%. Junior is a marketing communications agency which operates out of Brisbane.

On 1 January 2009, SMS acquired 84.9% of Subnine Pty Limited ("Subnine") in exchange for a 44.1% stake in International Quarterback Pty Limited. Subnine is a sports sponsorship company which operates out of Sydney.

On 1 January 2009, SMS acquired 80% of Savage & Partners Pty Limited ("Savage & Partners"). Savage & Partners is a corporate communications consultancy which operates out of Sydney.

On 1 January 2009, SMS acquired an additional 13.5% of iCRE8 Pty Limited ("iCRE8"), thereby increasing SMS's ownership to 51%. iCRE8 is a promotions and incentives agency which operates out of Sydney.

On 31 March 2009, SMS disposed of its 70% interest in Generation Alliance Pty Limited.

	Consolidated Entity	
	2010	2009
Notes	\$'000	\$'000
Purchase consideration:		
Acquisition cost in prior periods and/or deferred cash settlement (i)	869	12,151
Fair value – equity accounted interest (ii)	1,397	–
Cash paid in the current period	33(c) 1,515	8,419
Total purchase consideration	3,781	20,570
Fair value of net identifiable assets acquired	33(b) 3,493	(37)
Goodwill acquired	288	20,607

(i) Contingent consideration requires the Group to pay the vendors an additional \$1,050,000 subject to certain events occurring. \$869,000 represents the estimated fair value of this obligation.

(ii) The Group's equity interest in Adcast held before the business combination amounted to \$559,000. The Group recognised a gain of \$838,000 as a result of measuring at fair value its 40% equity interest in Adcast held before the business combination. The gain is included in other income in the Group's income statement for the year ended 31 December 2010.

The acquired business contributed revenues of \$1,369,000 and net profit of \$489,000 to the Group for the period from 1 January 2010 to 31 December 2010. If control over this entity had all been achieved on 1 January 2010, the profit for the Group would have been \$34,000 higher and revenue from continuing operations would have been \$425,000 higher.

The goodwill acquired is attributable to the high profitability of the acquired businesses and synergies expected to arise after the Company's acquisition of the new controlled entities. The fair values of assets and liabilities acquired are based on discounted cash flow models.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 10 (CONTINUED)

NOTE 33. BUSINESS COMBINATIONS (CONTINUED)

(B) ASSETS AND LIABILITIES ACQUIRED

The assets and liabilities arising from the acquisitions are as follows:

	Consolidated Entity	
	2010 \$'000	2009 \$'000
Fair value of net assets acquired		
Cash and cash equivalents	750	1,976
Trade and other receivables	66	4,376
Prepayments	1	20
Other current assets	–	55
Plant and equipment	5	740
Other non-current assets	–	54
Intangible assets	3,007	–
Trade and other payables	(300)	(6,679)
Borrowings	–	(159)
Provisions – current	(32)	(243)
Deferred tax liabilities	–	(19)
Other non-current liabilities	(4)	(171)
Net assets	3,493	(50)
Non-controlling interests in net assets acquired	–	13
Net identifiable assets acquired	3,493	(37)

At the dates of acquisition of the various entities, apart from the brand name, the carrying value of the assets and liabilities acquired approximated their fair value. The methods used in determining the fair value of assets and liabilities acquired are summarised in Note 1(n).

(C) PURCHASE CONSIDERATION

		2010 \$'000	2009 \$'000
Outflow of cash to acquire controlled entities, net of cash acquired	Notes		
Cash consideration	33(a)	1,515	8,419
Cash balances acquired	33(b)	(750)	(1,976)
Outflow of cash		765	6,443



NOTE 34. EXPENDITURE COMMITMENTS

(A) CAPITAL EXPENDITURE COMMITMENTS

As at 31 December 2010, the Group had no commitments for expenditure (2009: Nil).

(B) OPERATING LEASE COMMITMENTS

The leases have an average life of between one and 10 years with renewal terms included in the contracts. Renewals are at the option of the specific entity that holds the lease. There are no restrictions placed upon the lessee by entering into these leases. There are no contingent rentals payable. No assets under operating leases have been sub-let to third parties.

Future minimum rentals payable under non-cancellable operating leases as at 31 December 2010 are as follows:

	Consolidated Entity	
	2010 \$'000	2009 \$'000
Within one year	14,634	13,916
Later than one year and not later than five years	44,871	39,006
Later than five years	14,534	23,112
	74,039	76,034
Share of jointly controlled entities' operating lease commitments	4,873	4,093

(C) FINANCE LEASE AND HIRE PURCHASE COMMITMENTS

The Group has finance lease and hire purchase contracts for various items of plant and equipment for an average term of five years. These contracts have no terms of renewal or purchase options and escalation clauses.

Future minimum payments under finance leases and hire purchase contracts together with the present value of the net minimum payments are as follows:

	Consolidated Entity	
	2010 \$'000	2009 \$'000
Within one year	14	688
Later than one year and not later than five years	–	2,123
Later than five years	–	–
Total minimum future payments	14	2,811
Future finance charges	(1)	(384)
Present value of future minimum payments	13	2,427
Included in the financial statements as:		
Current liability	13	530
Non-current liability	–	1,897
	13	2,427



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 10 (CONTINUED)

NOTE 35. CONTINGENT LIABILITIES

The consolidated entity had contingent liabilities in respect of:

	Notes	Consolidated Entity	
		2010 \$'000	2009 \$'000
Bank guarantees	35(b)	7,171	7,663
		7,171	7,663

(A) LEGAL AND REGULATORY PROCEEDINGS

The Group has been involved from time to time in various claims and proceedings arising from the conduct of its business. There are currently no claims or proceedings, either individually or in aggregate, which are likely to have a material effect on the Group's financial position. The Group maintains insurance cover to minimise the potential effects of such claims, and where appropriate, provisions have been made.

(B) GUARANTEES

The Company has provided various bank guarantees for rental premises totalling \$7,171,000 (2009: \$7,663,000) on behalf of various controlled and jointly controlled entities. These guarantees will give rise to a liability for the consolidated entity if the various controlled and jointly controlled entities do not meet their obligations under the terms of the lease agreements.

Bank loans totalling \$170,000,000 (2009: \$262,000,000) are secured by a cross guarantee and indemnity by and between the Company and Singleton Ogilvy & Mather (Holdings) Pty Limited and its wholly-owned controlled entities as outlined in Note 23.

Cross guarantees given by STW Communications Group Limited as described in Note 37.



NOTE 36. SUBSIDIARIES

The consolidated financial statements include the financial statements of STW Communications Group Limited and its controlled entities listed in the following table:

	Type of Share/Unit	2010	2009	Country of Incorporation/ Formation
Singleton Holdings Pty Limited and its controlled entities	Ordinary	100%	100%	Australia
– Singleton Ogilvy & Mather (Holdings) Pty Limited and its controlled entities	Ordinary	66.67%	66.67%	Australia
– Hawker Britton Group Pty Limited (i)	Ordinary	70%	70%	Australia
– Octopus Holdings No. 1 Pty Limited	Ordinary	100%	100%	Australia
– OgilvyAction Pty Limited	Ordinary	100%	100%	Australia
– Plush Films Pty Limited	Ordinary	53%	53%	Australia
– One 20 Pty Limited (formerly Red Arrow Strategy Pty Limited) (iv)	Ordinary	–	100%	Australia
– Red Tape Commercials Pty Limited	Ordinary	100%	100%	Australia
– Red Temple Pty Limited	Ordinary	100%	100%	Australia
– Singleton OgilvyInteractive Pty Limited	Ordinary	100%	100%	Australia
– Singleton Ogilvy & Mather (NZ) Limited and its controlled entities	Ordinary	100%	100%	New Zealand
– Ogilvy New Zealand Limited	Ordinary	65%	65%	New Zealand
– Singleton Ogilvy & Mather (Sydney) Pty Limited and its controlled entity	Ordinary	100%	100%	Australia
– Ethnic Communications Pty Limited	Ordinary	100%	100%	Australia
– OgilvyOne Pty Limited	Ordinary	100%	100%	Australia
– Ogilvy & Mather (Melbourne) Pty Limited				
– Star Advertising Pty Limited	Ordinary	100%	100%	Australia
– Belshaw Pty Limited	Ordinary	100%	100%	Australia
– Singleton Direct Pty Limited	Ordinary	100%	100%	Australia
– STW Investments Pty Limited	Ordinary	100%	100%	Australia



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 10 (CONTINUED)

NOTE 36. SUBSIDIARIES (CONTINUED)

	Type of Share/Unit	2010	2009	Country of Incorporation/Formation
– STW Village Pty Limited	Ordinary	100%	100%	Australia
– STW Media Pty Limited and its controlled entity	Ordinary	100%	100%	Australia
– IKON Communications Pty Limited (i)	Ordinary	100%	90%	Australia
– STW Media Services Pty Limited and its controlled entities	Ordinary	100%	100%	Australia
– Adcast Unit Trust (ii)	Ordinary	100%	–	Australia
– Added Value Australia Pty Limited	Ordinary	51%	51%	Australia
– AMR Interactive Group Pty Limited and its controlled entities	Ordinary	100%	100%	Australia
– Badjar Ogilvy Unit Trust and its controlled entities	Ordinary	67%	67%	Australia
– Brighthost Pty Limited (formerly Brand New Alliance Pty Limited)	Ordinary	100%	100%	Australia
– Punch Agency Pty Limited (formerly Brett Goulston & Associates Pty Limited)	Ordinary	100%	100%	Australia
– Canning Corporate Communication Unit Trust and its controlled entities	Ordinary	100%	100%	Australia
– Savage & Partners Pty Limited	Ordinary	80%	80%	Australia
– CBS Marketing Services Unit Trust	Ordinary	100%	100%	Australia
– Cornwell Design Pty Limited (i)	Ordinary	55%	55%	Australia
– Green Five Pty Limited and its controlled entities	Ordinary	90%	90%	Australia
– DT Digital Pty Limited	Ordinary	100%	100%	Australia
– Hoed Holdings Pty Limited	Ordinary	100%	100%	Australia
– Human Communications Pty Limited	Ordinary	100%	100%	Australia
– iCRE8 Pty Limited	Ordinary	51%	51%	Australia
– Ikon Melbourne Pty Limited (iii)	Ordinary	80%	–	Australia
– I.M. Advertising Pty Limited	Ordinary	70%	70%	Australia
– Issues & Images Holdings Pty Limited and its controlled entities	Ordinary	100%	100%	Australia
– Issues & Images Group Pty Limited	Ordinary	100%	100%	Australia
– Junior Advertising Pty Limited	Ordinary	80%	80%	Australia
– Lawrence Creative Strategy Pty Limited	Ordinary	100%	100%	Australia
– McMann & Tate Agency Pty Limited	Ordinary	100%	100%	Australia
– Moon Design Pty Limited	Ordinary	100%	100%	Australia



	Type of Share/Unit	2010	2009	Country of Incorporation/Formation
– Newgency Pty Limited	Ordinary	100%	100%	Australia
– Ogilvy Interactive Pty Limited	Ordinary	100%	100%	Australia
– One 20 Pty Limited (formerly Red Arrow Strategy Pty Limited) (iv)	Ordinary	100%	–	Australia
– Oxygen Learning Pty Limited (i)	Ordinary	60%	60%	Australia
– Peach Advertising Pty Limited	Ordinary	100%	100%	Australia
– Rhodon IT Pty Limited	Ordinary	100%	100%	Australia
– Sales Success (Aust) Pty Limited (i)	Ordinary	75%	75%	Australia
– STW Group (NZ) Limited and its controlled entities	Ordinary	100%	100%	New Zealand
– Designworks Enterprise IG Limited (i)	Ordinary	94%	94%	New Zealand
– Assignment Group Limited	Ordinary	100%	100%	New Zealand
– Haines NZ Limited (i)	Ordinary	60%	60%	New Zealand
– Ikon New Zealand Limited (iii)	Ordinary	71%	–	New Zealand
– STW Holdings Pty Limited	Ordinary	100%	100%	Australia
– STW Smollan Field Marketing Pty Limited (iii)	Ordinary	51%	–	Australia
– STW Win Pty Limited	Ordinary	100%	80%	Australia
– Subnine Pty Limited (iii)	Ordinary	94.9%	84.9%	Australia
– Team Red Communications Pty Limited	Ordinary	100%	100%	Australia
– The Brand Agency Unit Trust	Ordinary	80%	80%	Australia
– The MissingLink Pty Limited	Ordinary	100%	100%	Australia
– Designworks (Melbourne) Pty Limited (formerly Yello Brands (Melbourne) Pty Limited) (i)	Ordinary	70%	70%	Australia
– Yello Brands (Sydney) Pty Limited	Ordinary	100%	100%	Australia

(i) With put and call option agreements in place for these entities, the Group's policy is to include 100% of the earnings and balance sheet items into the consolidated entity's income statement and balance sheet (refer to Note 1(c)(i)).

(ii) The Company purchased additional shares in the entity during the current year, resulting in the acquisition of a controlling interest in the entity (refer to Note 33).

As a result, the investment has been consolidated as a controlled entity in the current year and are no longer accounted for as an investment using the equity method.

(iii) The Company purchased additional shares in the entity during the year.

(iv) The Company transferred its ownership to STW Media Services Pty Limited.

CLASS OF EQUITY

For each of the controlled entities listed above, with the exception of Badjar Ogilvy Unit Trust, Canning Corporate Communication Unit Trust, The Brand Agency Unit Trust and CBS Marketing Services Unit Trust, the Company's equity holdings consist of holdings of ordinary shares. For the four unit trusts, the Company's equity holdings consist of holdings of ordinary units.

Dormant entities within the STW Group have not been included in the above table.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 10 (CONTINUED)

NOTE 37. DEED OF CROSS GUARANTEE

The following summarised consolidated income statement comprises the Company and its controlled entities which are party to the Deed of Cross Guarantee (refer to Note 35) after eliminating all transactions between parties to the deed:

	2010 \$'000	2009 \$'000
Income statement		
Profit before income tax	49,951	12,884
Income tax expense	(5,595)	(791)
Profit Net	44,356	12,093

Statement of comprehensive income

Net profit	44,356	12,093
Other comprehensive income		
Cash flow hedges gain on cash flow hedges taken to equity	1,641	2,537
Income tax relating to components of other comprehensive income	(492)	(761)
Other comprehensive income (net of tax)	1,149	1,776
Total comprehensive income	45,505	13,869

Summary of movements in consolidated retained earnings

Retained earnings at the beginning of the year	25,309	25,058
Net profit	44,357	12,093
Changes to the entities within the closed group	5,573	–
Dividends provided for or paid	(15,665)	(11,842)
Retained earnings at the end of the financial year	59,574	25,309



	2010 \$'000	2009 \$'000
Current assets		
Cash and cash equivalents	16,096	10,708
Trade and other receivables	69,985	20,391
Current tax assets	1,123	5,522
Other current assets	5,920	4,798
Total current assets	93,124	41,419
Non-current assets		
Other receivables	64,531	60,137
Investments accounted for using the equity method	100,326	98,580
Other financial assets	216,164	252,877
Plant and equipment	7,907	6,950
Deferred tax assets	6,165	5,837
Intangible assets	112,380	70,897
Other non-current assets	1,116	37
Total non-current assets	508,589	495,315
Total assets	601,714	536,734
Current liabilities		
Trade and other payables	127,125	27,309
Borrowings	501	-
Current tax liabilities	9,118	1,113
Provisions	2,387	1,501
Total current liabilities	139,131	29,923
Non-current liabilities		
Other payables	30,521	74,428
Borrowings	73,299	109,155
Deferred tax liabilities	1,408	1,408
Provisions	1,287	1,168
Total non-current liabilities	106,515	186,159
Total liabilities	245,646	216,082
Net assets	356,068	320,652
Equity		
Issued capital	297,435	297,435
Reserves	(941)	(2,090)
Retained earnings	59,574	25,309
Total equity	356,068	320,652



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 10 (CONTINUED)

NOTE 38. AUDITORS' REMUNERATION

	Consolidated Entity	
	2010 \$	2009 \$
Amounts received or due and receivable by Deloitte Touche Tohmatsu for:		
- an audit of the financial report of the entity and any other entity in the consolidated entity	700,000	700,000
- tax compliance services in relation to the entity and any other entity in the consolidated entity	80,090	97,910
- other services in relation to the entity and any other entity in the consolidated entity	-	33,800
	780,090	831,710
Amounts received or due and receivable by BDO New Zealand Limited for an audit of the financial report of entities within the consolidated entity	86,469	38,083
Amounts received or due and receivable by O'Donnell Hennessy & Co for an audit of the financial report of an entity within the consolidated entity (i)	-	18,500

(i) During the current year the Group changed its auditors for IKON Communications Group Pty Limited from O'Donnell Hennessy & Co to Deloitte Touche Tohmatsu.

NOTE 39. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the end of the year, the Directors declared the payment of a fully franked final dividend of 4.2 cents per share. The record date for determining entitlement is 8 April 2011 and the final dividend is payable on 21 April 2011. The estimated amount payable is \$15,301,000. The financial impact of the final dividend is not included in the results for the year ended 31 December 2010.

In February 2011, STW Media Services ("SMS") acquired an additional 23% of Tongue Pty Limited, thereby increasing SMS's ownership to 72%.

Apart from the item disclosed above, there has not arisen, in the interval between the end of the financial period and the date of signing of this financial report, any item, transaction or event of a material or unusual nature which, in the opinion of the Directors has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future periods.



NOTE 40. PARENT ENTITY FINANCIAL INFORMATION

(A) FINANCIAL POSITION AND PERFORMANCE

The individual financial statements for the parent entity show the following aggregate amounts:

	Parent Entity	
	2010 \$'000	2009 \$'000
Balance sheet		
Current assets	29,932	10,976
Non-current assets	432,353	440,126
Total assets	462,285	451,102
Current liabilities	14,221	4,519
Non-current liabilities	150,529	155,193
Total liabilities	164,750	159,712
Net assets	297,535	291,390
Shareholders' equity		
Issued capital	297,435	297,435
Reserves	(186)	(1,335)
Retained earnings/(accumulated losses)	286	(4,710)
Total equity	297,535	291,390
Net profit	20,661	6
Total comprehensive income	19,512	1,782

(B) CONTINGENT LIABILITIES OF THE PARENT ENTITY

The parent entity had contingent liabilities in respect of:

	Parent Entity	
	2010 \$'000	2009 \$'000
Bank guarantees	7,171	7,663

The Company has provided various bank guarantees for rental premises totalling \$7,171,000 (2009: \$7,663,000) on behalf of various controlled and jointly controlled entities. These guarantees will give rise to a liability for the consolidated entity if the various controlled and jointly controlled entities do not meet their obligations under the terms of the lease agreements.

Bank loans totalling \$170,000,000 (2009: \$262,000,000) are secured by a cross guarantee and indemnity by and between the Company and Singleton Ogilvy & Mather (Holdings) Pty Limited and its wholly-owned controlled entities as outlined in Note 23.

Cross guarantees given by STW Communications Group Limited as described in Note 37.



DIRECTORS' DECLARATION

The Directors of STW Communications Group Limited declare that:

- (a) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (b) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company and the consolidated entity;
- (c) in the Directors' opinion, there are reasonable grounds to believe that the members of the extended closed group identified in Note 37 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 37;
- (d) Note 1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board; and
- (e) Signed in accordance with a resolution of the Directors made pursuant to section 295(5) of the Corporations Act 2001:

Robert Mactier
Chairman

Michael Connaghan
Chief Executive Officer

Sydney, 30 March 2011





INDEPENDENT AUDITOR'S REPORT

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

DX: 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

Independent Auditor's Report to the Members of STW Communications Group Limited

Report on the Financial Report

We have audited the accompanying financial report of STW Group Communications Group Limited, which comprises the balance sheet as at 31 December 2010, and the income statement, statement of comprehensive income, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 61 to 129.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's Independence Declaration

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

Auditor's Opinion

In our opinion:

- (a) the financial report of STW Communications Group Limited is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2010 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in pages 41 to 54 of the directors' report for the year ended 31 December 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of STW Communications Group Limited for the year ended 31 December 2010, complies with section 300A of the Corporations Act 2001.

DELOITTE TOUCHE TOHMATSU

Stephen Holdstock
Partner
Chartered Accountants
Sydney, 30 March 2011



ASX ADDITIONAL INFORMATION AS AT 28 FEBRUARY 11

Additional information required by the Australian Securities Exchange ("ASX") and not shown elsewhere in this report is as follows. The information is current as at 28 February 2011 unless otherwise stated.

(A) DISTRIBUTION OF EQUITY SECURITIES

The number of shareholders, by size of holding, in each class of shares is:

	Ordinary Shares	
	Number of Holders	Number of Shares
1 – 1,000	1,549	663,295
1,001 – 5,000	2,069	5,910,860
5,001 – 10,000	971	7,486,567
10,001 – 100,000	1,138	28,987,389
100,001 and over	85	321,262,853
	5,812	364,310,964

(B) MARKETABLE PARCEL

The number of shareholders holding less than a marketable parcel of shares (ie \$500 worth of shares), is 875. In accordance with ASX Business Rules, the last sale price of the Company's shares on the ASX on 28 February 2011 was used to determine the number of shares in a marketable parcel.

(C) TWENTY LARGEST SHAREHOLDERS

The names of the 20 largest holders of quoted shares are:

	Quoted Ordinary Shares	
	Number of Shares	Percentage of Shares
Cavendish Square Holdings Bv	75,000,000	20.59
J P Morgan Nominees Australia Limited	52,721,268	14.47
National Nominees Limited	47,604,084	13.07
HSBC Custody Nominees (Australia) Limited	38,087,448	10.45
RBC Dexia Investor Services Australia Nominees Pty Limited (Pipooled A/C)	33,316,498	9.15
Citicorp Nominees Pty Limited	13,690,204	3.76
Cogent Nominees Pty Limited	10,396,575	2.85
RBC Dexia Investor Services Australia Nominees Pty Limited (Bkcust A/C)	8,081,525	2.22
CPU Share Plans Pty Ltd	6,652,333	1.83
JP Morgan Nominees Australia Limited (Cash Income A/C)	3,867,508	1.06

Quoted Ordinary Shares

	Number of Shares	Percentage of Shares
Citicorp Nominees Pty Limited (Cfsil Cwlth Small Co 7 A/C)	3,684,889	1.01
Queensland Investment Corporation	3,280,479	0.90
RBC Dexia Investor Services Australia Nominees Pty Ltd (Piselect A/C)	3,083,317	0.85
Citicorp Nominees Pty Limited (Cfsil Cwlth Sml Cos 1 A/C)	1,568,000	0.43
Citicorp Nominees Pty Limited (Cfsil Cwlth Aust Shs 17 A/C)	1,120,718	0.31
ABN Amro Clearing Sydney Nominees Pty Ltd (Custodian A/C)	1,080,274	0.30
UBS Nominees Pty Ltd	1,015,145	0.28
Mr Michael Lewis Connaghan	787,808	0.22
UBS Wealth Management Australia Nominees Pty Ltd	756,966	0.21
The University Of Melbourne	637,048	0.17
	306,432,087	84.11%

(D) SUBSTANTIAL SHAREHOLDERS

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

	Quoted Ordinary Shares	
	Number of Shares	Percentage of Shares
Cavendish Square Holdings BV (i)	75,000,000	20.6%
Perpetual Limited	39,332,615	10.8%
Paradise Investment Management Pty Ltd	25,024,214	6.9%

(i) Cavendish Square Holdings BV is a wholly-owned subsidiary of WPP Group plc ("WPP"). As at 28 February 2011, WPP had one Director on the Board of STW Communications Group Limited (namely Paul Richardson).

(E) VOTING RIGHTS

At a general meeting, every shareholder present in person or by proxy, representative or attorney will have one vote on a show of hands and, on a poll, one vote for each share.



CORPORATE DIRECTORY

DIRECTORS

Robert Mactier (Chairman)
Russell Tate (Deputy Chairman)
Paul Richardson
Ian Tsicalas
Graham Cubbin
Michael Connaghan
Peter Cullinane
Kim Anderson

CHIEF EXECUTIVE OFFICER

Michael Connaghan

CHIEF OPERATING OFFICER

Chris Savage

CHIEF FINANCIAL OFFICER

Lukas Aviani

COMPANY SECRETARY

Chris Rollinson

AUDITOR

Deloitte Touche Tohmatsu

SOLICITORS

Minter Ellison
Freehills

REGISTERED OFFICE

Level 6, Ogilvy House
72 Christie Street
St Leonards NSW 2065
Telephone: (02) 9373 6333

SHARE REGISTRY

Computershare Investor Services Pty Limited
Level 3
60 Carrington Street
Sydney NSW 2000
Telephone: (02) 8234 5000

WEBSITE ADDRESS

www.stwgroup.com.au

ANNUAL GENERAL MEETING

The Annual General Meeting will be held
at 9:30am on 10 May 2011 at:
Ogilvy House
72 Christie Street
St Leonards NSW 2065.

ABN

84 001 657 370