17.08.2011

ASX ANNOUNCEMENT

FY2011 Full Year Results Announcement

PhotonGroup.

Photon Group Limited (ASX:PGA) today announced its financial results for the year ended 30 June 2011.

Highlights:

- **Normalised earnings:** Based on unaudited preliminary accounts for the 12 months to 30 June 2011, Net Revenue was down 4.8% and EBITDA was down 24.9% from the prior corresponding period, after removing the contribution of businesses sold during the year.
- **Reduction of debt:** Total unconditional cash liabilities were reduced by 68 per cent, from approximately $450 million at 30 June 2010 to $146 million at 30 June 2011. Raised $76 million from asset sales at an average multiple of 9 times run-rate EBITDA.
- **Restructure of the portfolio:** Following the operational restructure, more than 85 per cent of earnings coming from business units with EBITDA of more than $3 million, and the number of business units reduced from 45 to 22.
- **Improved management and operational improvements:** Key changes were made across the company to bring in stronger management to improve performance. In many cases, new leadership teams are in the early days of a process of operational improvement.

Photon CEO Jeremy Philips said: “Significant progress was made in cleaning up some major issues at Photon in fiscal 2011. The company reduced debt more quickly than originally anticipated, implemented a more streamlined strategy based on a restructured portfolio, and improved the quality of management in key areas.

“These changes are yet to fully flow through to the operating results of all business units, however, we are confident the steps being taken are necessary and are creating a solid foundation for rebuilding the company.”

FY2011 Trading

A$ million	FY2011	FY2010
Pro forma (excludes contribution of divested businesses) [1]		
Net Revenue	327.5	344.1
EBITDA [2, 3]	49.4	65.8
Reported		
Net Revenue	343.6	378.6
EBITDA [2, 3]	53.3	75.1

NPAT pre Significant Items[4, 5]	30.0	20.9
NPATA pre Significant Items[5, 6]	34.9	29.6

Notes:

1. The businesses sold in December 2010 contributed $16.1 million of Net Revenue and $3.9 million of EBITDA in 1H2011. In FY2010 these businesses contributed $34.5 million of Net Revenue and $9.3 million of EBITDA.
2. FY2010 EBITDA normalised for significant items impacting EBITDA of $28.4 million.
3. The non-cash impact of equity incentives was positive in FY2011 due to the write-back and reduction of costs associated with unvested options that have expired. Net equity incentives in FY2011 have had approximately $0.8 million positive impact, versus a $2.3 million expense in FY2010.
4. FY2011 NPAT includes $13.6 million non-cash benefit (net of $7.0 million non-cash deferred tax liability) due to revaluation of deferred consideration liabilities during the period (FY2010: $(5.6) million non-cash expense).
5. FY2011 net loss after tax and significant items was $59.7 million after significant items including non-cash losses of $24.0 million on sale of subsidiaries and non-cash impairment charges of $36.0 million against the carrying value of the Search Marketing division (incurred in 1H2011) and $34.3 million against the carrying value of the Australian Agency division due to loss of material client in May 2011. A non-cash tax benefit of $4.6 million was recognised as a result of these losses.
6. Excludes non-cash amortisation of acquired intangibles (FY2011: $4.9 million; FY2010: $8.6 million)

- Net Revenue and EBITDA in the Australian Agencies division is 7% and 22% down respectively compared with the prior corresponding period. This has been largely driven by lower spending from a small number of large clients compared to the prior period and poor performance by a number of the smaller agencies where steps are being taken to improve performance including upgrading management and restructuring.
- Net Revenue and EBITDA in the Field Marketing division was in line with the prior corresponding period; and
- Net Revenue and EBITDA in the International division is 9% and 29% down respectively compared with the prior corresponding period. The main contributor of this variance was the lower results of Naked and The Leading Edge (TLE).

The impact of the stronger Australian dollar during the period has had a $2.2 million negative impact on the EBITDA performance of the Group (mainly in the International division) versus the same period last year.

Key Developments during FY2011

Due to significant efforts across the group, the company has made substantially greater progress during the year than initially expected, particularly in three key areas:

1. Reduction of Debt

- The company started FY2011 with total cash liabilities of over $450 million. Following the recapitalisation and the subsequent pay-down of debt from operating cash-flows and asset sales, as of June 2011 the company's total unconditional cash liability is $146 million, comprising $118 million of bank debt under facilities in place until September 2013 and a further $28 million of unconditional cash deferred consideration payments. The deferred consideration payments are due over the next four years, with $15 million of those payments expected to be due in the next six months and the substantial portion of the balance due by first quarter 2012. Further capped cash deferred consideration payments become due upon Photon hitting certain EBITDA and leverage targets as outlined in Photon's prospectus of 17 August 2010.
- Over time the company will target a lower level of overall gearing to better suit its natural operating leverage and exposure to the economic cycle.
- During the year the company completed a number of asset sales on attractive terms. The company remains highly pragmatic and continues to actively explore opportunities to create value. However, given there may not be buyers for the company's non-core businesses at

acceptable prices, the working assumption continues to be to focus on operational improvements. The company will not sell assets at discounted prices.

2. Operational Restructure

- At the start of the year, Photon consisted of 45 individual operating units, spread across 14 countries. The majority of these units had less than $3 million in earnings and some had little prospect of ongoing viability, or required significant uneconomic investment to continue.
- The quality of the portfolio was improved by selling, closing or merging businesses as appropriate. In doing this, many of the most substantial fragilities in the portfolio were removed, making the company easier to manage, more transparent, and more sustainable. The company now has a portfolio of 22 businesses, with more than 85 per cent of earnings coming from businesses with EBITDA of more than $3 million. The company is continuing efforts towards scaling up its businesses to increase performance and sustainability of earnings.
- Photon sold six businesses during the year for a total of $76 million being an average multiple of approximately nine times run-rate EBITDA.
- The company also merged over a dozen businesses to build stronger units with deeper capabilities and management and more compelling client offerings. For instance Bellamy Hayden was merged with Naked in Australia, which has created a highly regarded strategic and creative agency, and CPR into the Hotwire Group to expand Hotwire's product offering to public affairs and take advantage of Hotwire's international experience.
- Photon substantially exited from search arbitrage and related businesses through sales and closures. In all, Photon acquired these eclectic operations for $130 million over a number of years. They had no connection with Photon's other businesses and had minimal value.

3. Management and Operational Improvements.

- The company made a number of key changes to strengthen management. In many cases, new leadership teams are in the early days of operational improvement. For instance:
    - Matthew Melhuish, previously CEO of BMF, moved into the role of Head of Australia Agencies and is leading greater collaboration amongst the Australian business.
    - Craig Hart, previously President of Retail Agencies Asia at Omnicom, joined to lead the Field and Retail Marketing division, and is building on this strong collection of businesses.
    - Steve Gatfield joined as Chairman of Naked Communications based in New York. Steve's experience running a substantial global network will be invaluable in the next stage of Naked's development.
- The company increased its focus on operational improvements to capture benefits from scale, rather than simply operating as an unrelated collection of independent businesses with common ownership.
- In addition, we have been re-working incentive arrangements in the company to create a sustainable model.

Ongoing Progress

Many of the company's operating units achieved great external recognition and new client wins during the year. Photon has several world-class businesses in Australia and internationally which continued their record of delivering outstanding work for clients.

In the international division, two of the company's most promising global franchises, Naked Communications and TLE, are still well below their peak performance of prior years. Improving their performance is a high priority.

Contact

Andrew Butcher
Butcher & Co
+61 400 841 088

PhotonGroup

Photon Group Limited
FY2011 Full Year Results

17 August 2011

Topic	Slide
Executive Summary	3
Operational Update	8
Full Year Financials	14

Executive Summary

PhotonGroup.

- **Normalised earnings:** Based on unaudited preliminary accounts for the 12 months to 30 June 2011, Net Revenue and EBITDA were down 4.8% and 24.9% respectively from the prior corresponding period, after removing the contribution of businesses sold during the year.

- **Reduction of debt:** Total unconditional cash liabilities were reduced by 68 per cent, from approximately $450 million at 30 June 2010 to $146 million at 30 June 2011. Raised $76 million from asset sales at an average multiple of 9 times run-rate EBITDA.

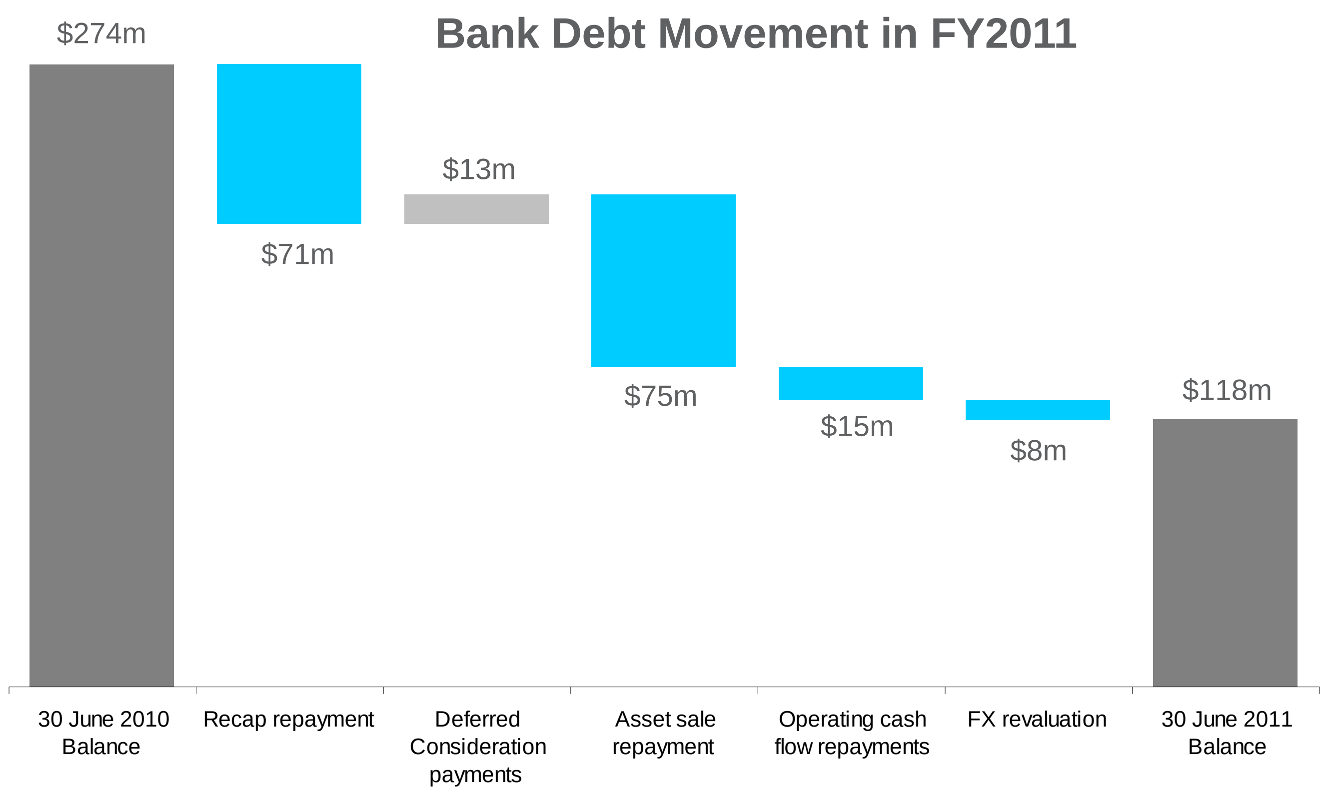
- **Restructure of the portfolio:** Following the operational restructure, more than 85 per cent of earnings coming from business units with EBITDA over $3 million, and the number of business units reduced from 45 to 22.

- **Improved management and operational improvements:** Key changes were made across the company to bring in stronger management to improve performance. In many cases, new leadership teams are in the early days of a process of operational improvement.

Executive Summary

Debt Repayment

- Total unconditional cash liabilities at beginning of year was over $450 million. Reduced by 68% during year following recapitalisation, asset sales and repayments from operating cash flow.
- Bank debt reduced from $274 million to $118 million. Over time company will target a lower level of gearing to better suit its natural operating leverage.



Executive Summary

PhotonGroup.

Restructure of Portfolio

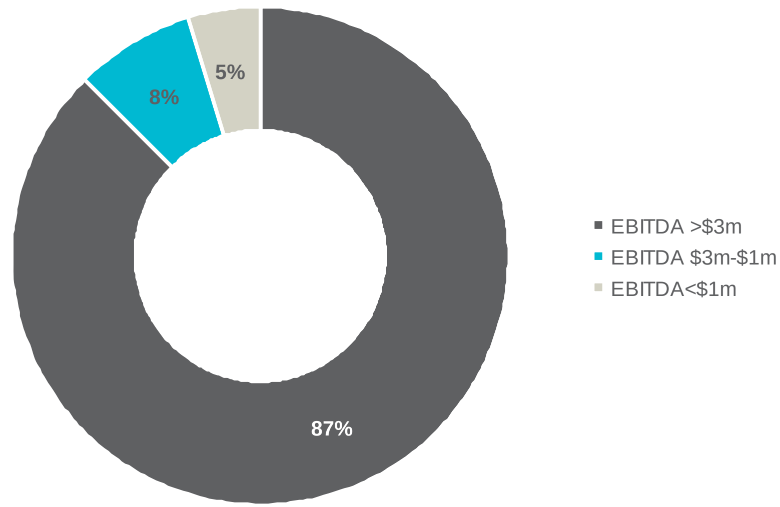
- Quality of portfolio improved by selling, closing or merging businesses making business less fragile, more transparent, easier to manage and more sustainable.

- Continuing to scale up businesses to improve performance.

- 45 companies at start of the year, majority with earnings less than $3 million. Now 22 entities with over 85% of earnings from businesses with more than $3 million EBITDA.

- Exited search marketing business through sales and closures. No connection with Photon's other business and minimal value.

Proportion of FY2011 EBITDA by business size



Total number of entities = 22

Executive Summary

Profit & Loss Summary

YEAR ENDED 30 JUNE ($MILLIONS)	2011	2010
Net Revenue	343.6	378.6
EBITDA[1,2]	53.3	75.1
EBITDA Margin	15.5%	19.8%
NPAT before significant items[3,4]	30.0	20.9
NPATA before significant items[4,5]	34.9	29.6
EPS before significant items[6]	1.95 cents	11.7 cents
EPS-A before significant items[6]	2.3 cents	16.6 cents

1. 2010 EBITDA normalised for extraordinary and abnormal losses of $28.4 million.
2. In 2011 EBITDA the impact of equity incentive expense was positive due to the write-back and reduction of costs associated with unvested options which have been forfeited. Net equity incentives in 2011 had a positive impact of $0.8 million versus a $2.3 million expense in the prior period.
3. 2011 NPAT includes $13.6 million of non-cash benefit (net of $7.0 million non-cash deferred tax liability) due to revaluation of deferred consideration liabilities during the period (2010: $(5.6) million present value expense).
4. Significant items includes non-cash losses of $24.0 million on sale of subsidiaries and non-cash impairment of $70.3 million of carrying value of Search Marketing and Australian Agency divisions. A non-cash tax benefit of $4.6 million was recognised as a result of these losses (refer slide 16).
5. Excludes non-cash amortisation of acquired intangibles (FY2011: $4.9 million; FY2010: $8.6 million)
6. EPS based on closing shares on issue 2011 = 1,540,886,866 (2010 = 178,440,645).

Executive Summary

Impact of Divestments during FY2011

YEAR ENDED 30 JUNE ($MILLIONS)	2011	2010	CHANGE
Net Revenue	343.6	378.6	(9.2%)
Net Revenue from divestments	(16.1)	(34.5)	nm
Pro Forma Net Revenue	327.5	344.1	(4.8%)

EBITDA[1,2]	53.3	75.1	(29.0%)
EBITDA from divestments	(3.9)	(9.3)	Nm
Pro Forma EBITDA	49.4	65.8	(24.9%)
Pro Forma EBITDA Margin	15.1%	19.1%	(4.0bp)

1. 2010 EBITDA normalised for extraordinary and abnormal losses of $28.4 million.
2. In 2011 EBITDA the impact of equity incentive expense was positive due to the write-back and reduction of costs associated with unvested options which have been forfeited. Net equity incentives in 2011 had a positive impact of $0.8 million versus a $2.3 million expense in the prior period.

Operational Update

Operational Update

Management & Operational Improvements

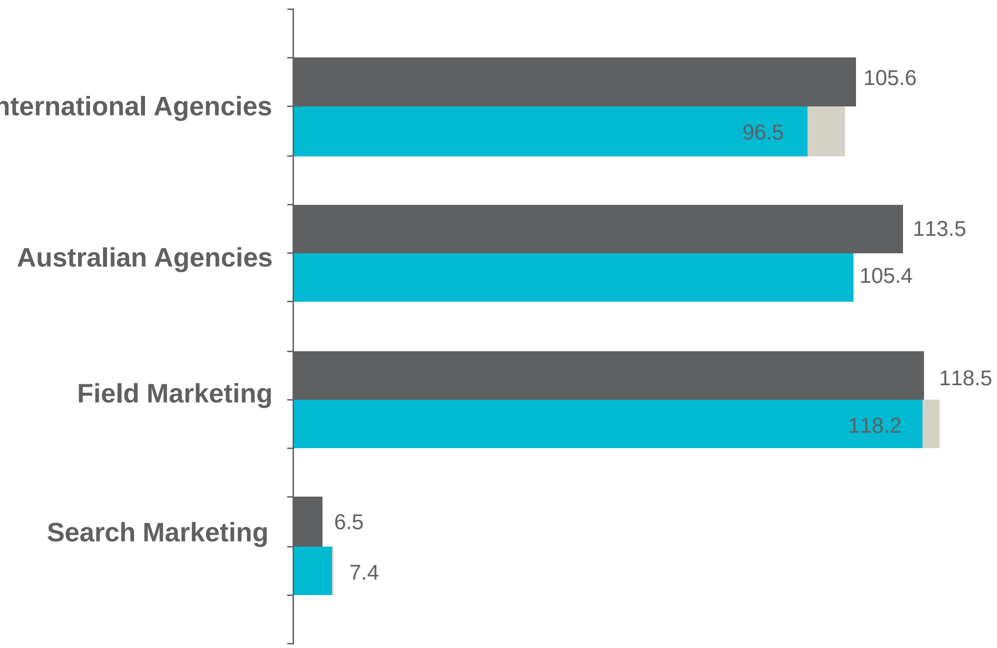
- Made a number of key hires and promotions to strengthen management across the group during the year:
  - Matthew Melhuish moved to role of Head of Australian Agencies
  - Craig Hart appointed to run Field Marketing & Retail Agencies
  - Steve Gatfield appointed as Chairman of Naked Communications, based in New York.
- Increased focus on operational improvements to capture benefits of scale, rather than simply operate as unrelated collection of businesses.
- Reworking incentives across company to create a sustainable model.

Operational Update

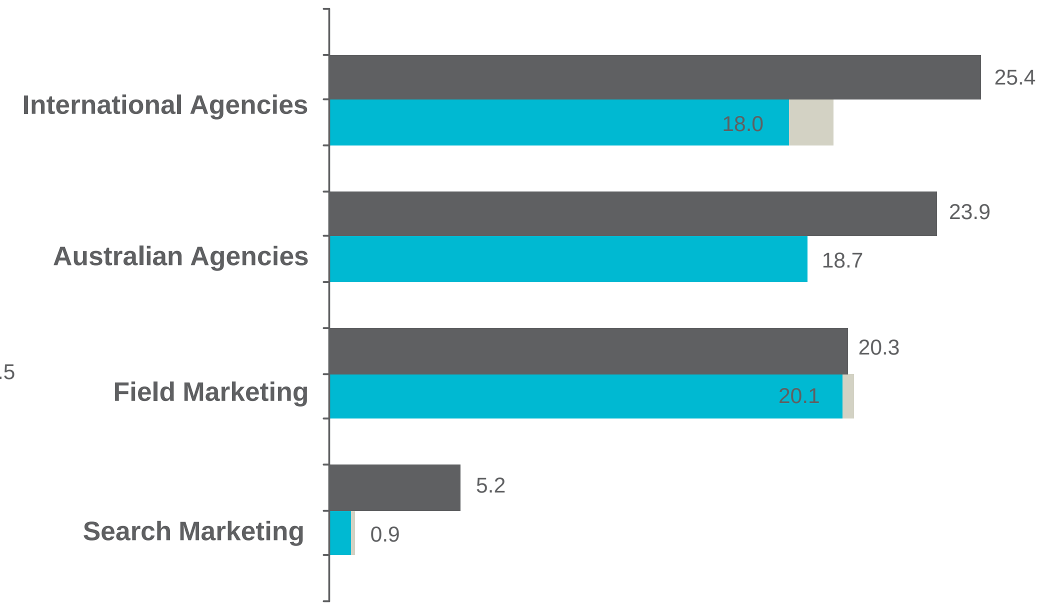
PhotonGroup.

Division Revenue & EBITDA

Net Revenue



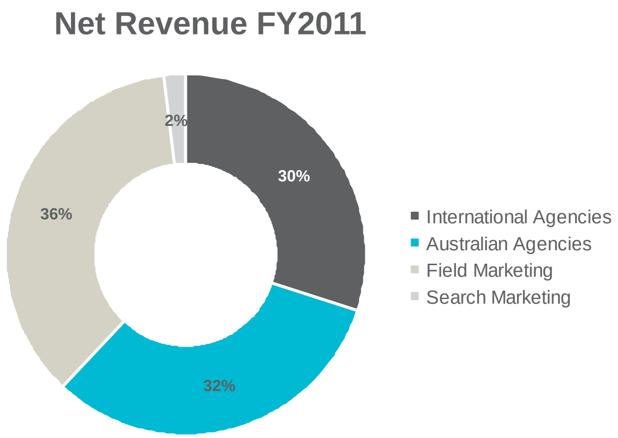
EBITDA

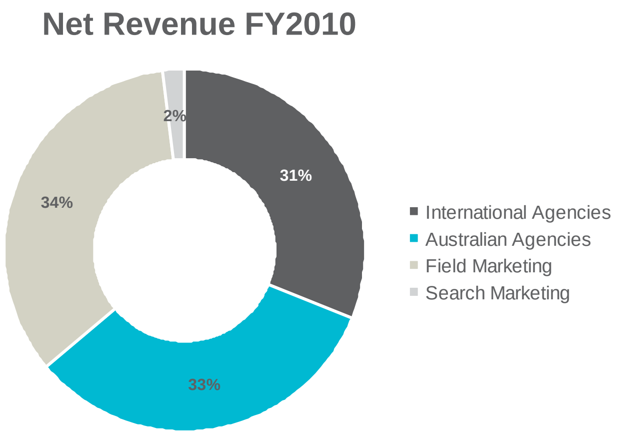


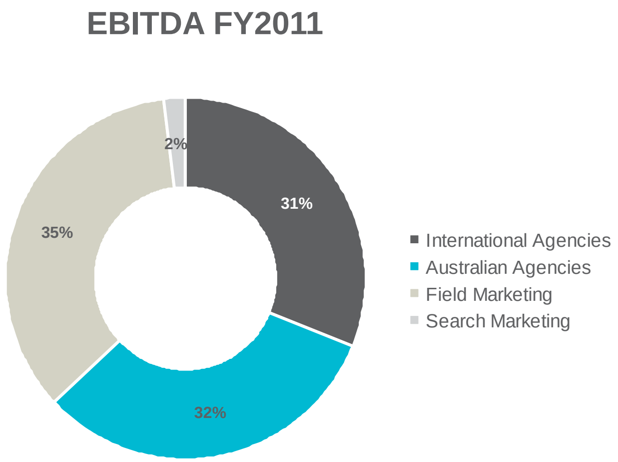
- FY2010 excluding the impact of divestments
- FY2011 excluding the impact of divestments
- FY2011 Impact of currency movement

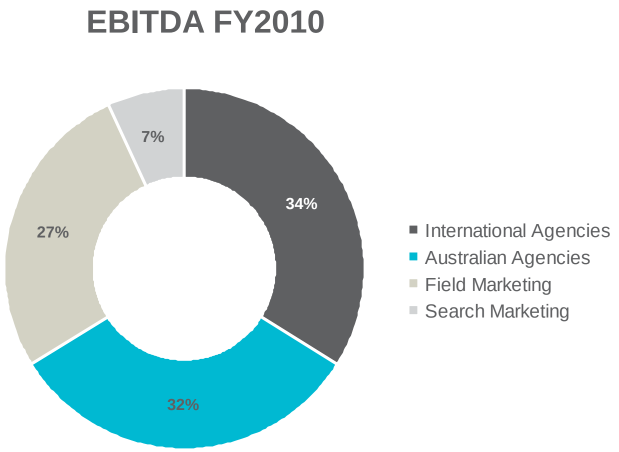
Operational Update

Division Contribution









Excludes the impact of divestments and Head Office costs.

Operational Update

Full Year Performance

PhotonGroup.

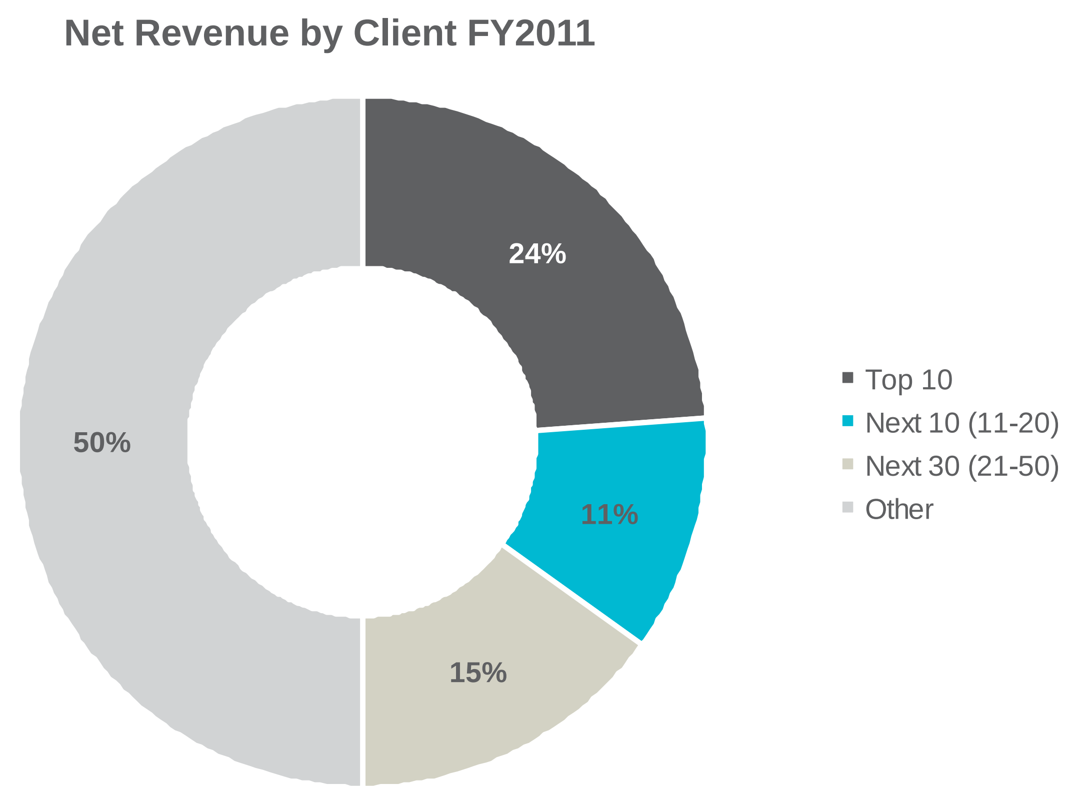
- International Agencies net revenue is down 9% and EBITDA is down 29% on the prior period (down 2% and 22% respectively on a constant currency basis).
  - Main cause of underperformance continues to be the performance of Naked and The Leading Edge versus the prior period.
  - Senior hires made during the period.
- Australian Agencies net revenue is down 7% and EBITDA is down 22% against FY2010
  - Weaker performances largely driven by lower spending by a small number of significant clients compared to the prior period.
- Field Marketing net revenue and EBITDA in line with the same period in FY2010 (up 2% and 1% respectively on a constant currency basis).
- Following changes to market dynamics in the search marketing industry a strategic review of the businesses in the division was undertaken.
  - Loss making operations in the US divested in January 2010.
  - Australian search arbitrage business closed in March 2011.
  - Outsourcing agreement entered into for operations of Dark Blue Sea.

Operational Update

PhotonGroup

Net Revenue by Client

- BWM Telstra contract lost in July 2011 accounted for approximately 3.5% of FY2011 Net Revenue – expected to be partially offset in FY2012 by new business wins.



Full Year Financials

Full Year Financials

PhotonGroup

Profit & Loss Summary

YEAR ENDED 30 JUNE ($MILLIONS)	2011	2010
Revenue	538.3	587.3
Net Revenue	343.6	378.6
Staff Costs	(234.0)	(248.0)
Other Expenses	(56.3)	(55.5)
EBITDA[1,2]	**53.3**	**75.1**
EBITDA Margin[3]	15.5%	19.8%
Depreciation & Amortisation	(15.3)	(21.1)
EBIT	38.1	54.0
Net Interest	(15.2)	(18.6)
PV Interest & FV gain on deferred consideration	20.6	(5.6)
Tax[4]	(13.4)	(8.7)
NPAT before significant items[5]	**30.0**	**20.9**
NPATA before significant items[5,6]	**34.9**	**29.6**

1. FY2010 EBITDA before extraordinary and one-off losses of $28.4 million
2. In FY2011 EBITDA the impact of equity incentive expense was positive due to the write-back and reduction of costs associated with unvested options which have expired. Net equity incentives in FY2011 had a positive impact of $0.8 million versus a $2.3 million expense in FY2010
3. EBITDA Margin is EBITDA / Net Revenue
4. Tax includes $7.0 million non-cash deferred tax liability associated with fair value gain on deferred consideration
5. Refer slide 16 for discussion of significant items
6. Excludes non-cash amortisation of acquired intangibles (FY2011: $4.9 million; FY2010: $8.6 million)

Full Year Financials

PhotonGroup.

Profit & Loss Summary cont'd

- The divestments completed in FY2011 crystallised a non-cash loss on sale of $24 million.
- Photon has assessed the carrying value of the remainder of the Search Marketing businesses in light of the changing market dynamics and incremental capital requirements and recorded an impairment charge on all goodwill and intangible assets of $36 million in the first half.
- During the year the Australian Agency Division lost a significant client contract, Photon assessed the impact on carrying value and recorded an impairment charge of $34 million.

YEAR ENDED 30 JUNE ($MILLIONS)	2011	2010
NPAT before significant items	30.0	20.9
Non-cash loss on sale & impairment of divested assets	(24.0)	-
Non-cash impairment	(70.3)	(88.9)
Non-cash tax benefit of significant items	4.6	-
Reported NPAT	(59.7)	(68.0)

Full Year Financials

Balance Sheet & Cash Flow

30 JUNE ($MILLIONS)	2011	2010
Cash	18.6	22.8
Working Capital	24.0	27.4
Other Assets	6.8	6.7
Fixed Assets	12.2	18.0
Intangibles	456.7	662.6
Total Assets	**518.3**	**737.5**
Provisions & Other Liabilities	9.7	17.7
Deferred Consideration (PV)	89.9	169.5
Non-current Borrowings	117.6	273.9
Other Borrowings	2.7	10.2
Net Assets	**298.4**	**266.2**

YEAR ENDED 30 JUNE ($MILLIONS)	2011	2010
EBITDA	53.3	75.1
Movement in Working Capital[1]	(4.6)	(5.8)
Release of Restructure Provision	(4.7)	-
Equity Incentive (Benefit) / Expense	(0.8)	2.3
Gross Cash Flow	43.2	71.6
Net Interest Paid	(13.7)	(18.7)
Tax	(3.3)	(17.2)
Operating Cash Flow	26.1	35.7
Capex	(6.5)	(9.2)
Free Cash Flow	**19.5**	**26.5**

1. $4.0 million relates to working capital of divested companies transferred on divestment.

Full Year Financials

Debt Profile

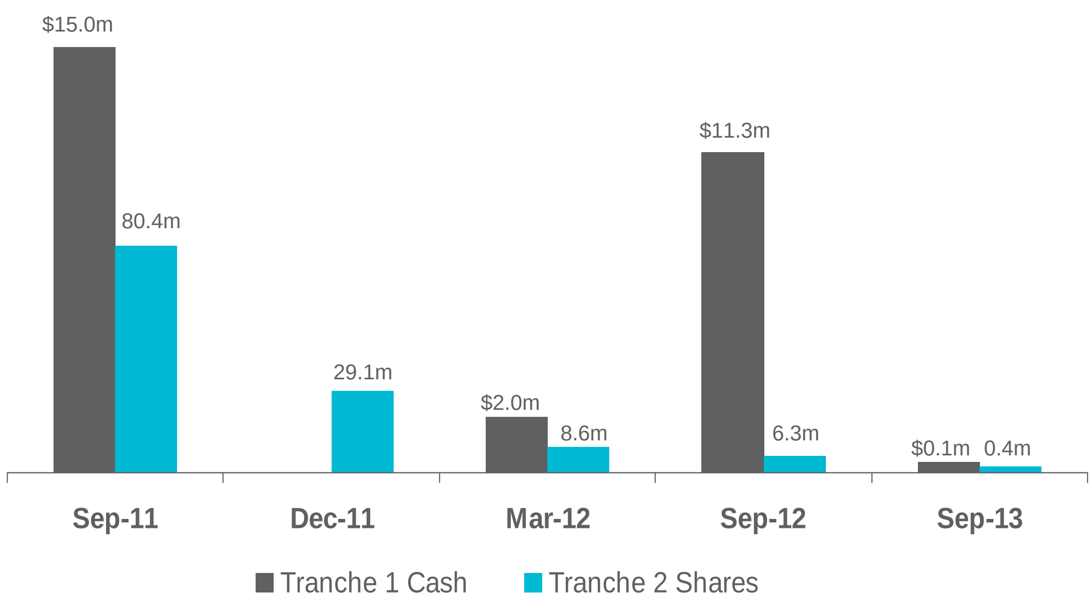
- Total bank debt reduced from $274 million at 30 June 2010 to $118 million at 30 June 2011 after repayments from proceeds of capital raising, asset sales and operating cash flow during the year.
- Leverage covenants have been adjusted until 30 June 2012 to reflect current earnings run-rate and expected level of debt over next 12 months after payment of earn-outs.
- Facilities term to 30 September 2013.

30 June 2011, ($MILLIONS)	FACILITY	DRAWN
Total Cash Advance Facilities	**150**	**118**
Interest Cover	>2.75x	3.0x
Leverage Ratio	<2.75x	2.3x
Capitalisation (Book) Ratio	<55%	41%

Full Year Financials

Deferred Consideration Profile

- Deferred consideration outstanding of $104 million – present value of liability of $90 million.
  - Tranche 1 – $28 million cash payments (profile as per below).
  - Tranche 2 – 125 million shares to be released from escrow.
  - Tranche 3A & 3B – EBITDA triggers adjusted for divestments to $76.5 million and $86.5 million respectively.



NOMINAL DEFERRED CONSIDERATION LIABILITY	$ MILLION
Opening Estimate (30 June 2010)	178.9
Impact of Restructure (30 Sept 2010)	(6.7)
Payments in 2011	(34.6)
Issue of Shares in 2011	(12.1)
Impact of Fair Value & Goodwill Adjustments	(11.1)
FX Revaluations	(10.6)
Closing Estimate (30 Jun 2011)	**103.8**

Appendix

Division Net Revenue & EBITDA

YEAR ENDED 30 JUNE ($MILLIONS)	2010	DIVESTED COMPANIES	CURRENCY MOVEMENT	2010 PRO FORMA CONSTANT CURRENCY	ORGANIC MOVEMENT	2011 PRO FORMA
International Agencies	107.5	(1.9)	(7.5)	98.1	(1.6)	96.5
Australian Agencies	141.6	(28.1)	-	113.5	(8.1)	105.4
Field Marketing	118.5	-	(2.8)	115.7	2.5	118.2
Search Marketing	11.0	(4.5)	(0.7)	5.7	1.6	7.4
Total Net Revenue	**378.6**	**(34.5)**	**(11.0)**	**333.0**	**(5.5)**	**327.5**
International Agencies	25.1	0.3	(1.9)	23.5	(5.5)	18.0
Australian Agencies	32.3	(8.4)	-	23.9	(5.2)	18.7
Field Marketing	20.3	-	(0.3)	20.0	0.1	20.1
Search Marketing	6.4	(1.2)	(0.1)	5.1	(4.2)	0.9
Head Office	(9.0)	-	0.1	(8.9)	0.6	(8.3)
Total EBITDA	**75.1**	**(9.3)**	**(2.2)**	**63.6**	**(14.2)**	**49.4**

1. FY2011 Average FX Rates: GBP:AUD = 1: 1.6130; USD:AUD = 1:1.0151. FY2010 Average FX Rates: GBP:AUD = 1: 1.7892; USD:AUD = 1:1.1335

Disclaimer

PhotonGroup.

This document has been prepared by Photon Group Limited (Photon) and comprises written materials/slides for a presentation concerning Photon. This is not a prospectus, disclosure document or offering document.

This document is for information purposes only and does not constitute or form part of any offer or invitation to acquire, sell or otherwise dispose of, or issue, or any solicitation of any offer to sell or otherwise dispose of, purchase or subscribe for, any securities, nor does it constitute investment advice, nor shall it or any part of it nor the fact of its distribution form the basis of, or be relied on in connection with, any contract or investment decision.

Certain statements in this presentation are forward looking statements. You can identify these statements by the fact that they use words such as “anticipate”, “estimate”, “expect”, “project”, “intend”, “plan”, “believe”, “target”, “may”, “assume” and words of similar import. These forward looking statements speak only as at the date of this presentation. These statements are based on current expectations and beliefs and, by their nature, are subject to a number of known and unknown risks and uncertainties that could cause the actual results, performances and achievements to differ materially from any expected future results, performance or achievements expressed or implied by such forward looking statements.

No representation, warranty or assurance (express or implied) is given or made by Photon that the forward looking statements contained in this presentation are accurate, complete, reliable or adequate or that they will be achieved or prove to be correct. Except for any statutory liability which cannot be excluded, each of Photon, its related companies and their respective officers, employees and advisers expressly disclaim any responsibility for the accuracy or completeness of the forward looking statements and exclude all liability whatsoever (including negligence) for any direct or indirect loss or damage which may be suffered by any person as a consequence of any information in this presentation or any error or omission therefrom.

Subject to any continuing obligation under applicable law or any relevant listing rules of the ASX, Photon disclaims any obligation or undertaking to disseminate any updates or revisions to any forward looking statements in these materials to reflect any change in expectations in relation to any forward looking statements or any change in events, conditions or circumstances on which any statement is based. Nothing in these materials shall under any circumstances create an implication that there has been no change in the affairs of Photon since the date of this presentation.