2011 STW
ANNUAL REPORT

stw group

IDEAS CREATE GROWTH

INSIDE

WELC

COMPANY HIGHLIGHTS

- Australasia's largest, most profitable marketing and communications business.
- Solid revenue and profit growth, which were largely organic.
- We remain focused on extracting maximum value from our existing portfolio of companies.
- Significant market share gains in 2011 driving revenue growth.
- Continued investment in start-ups and new revenue stream opportunities.
- Focus on geographic expansion and exporting home grown brands and intellectual property. First steps are encouraging.
- Strong momentum in digital and technology leadership.
- Balance sheet remains extremely robust.
- Extended $85 million in banking facilities until January 2015.
- Total dividend relating to the 2011 year of 8.0 cents per share, fully franked (2010: 6.5 cents per share, fully franked). Full year dividend payout ratio increased to 70% of underlying profit, reflecting strong business performance and confidence in outlook.

STW Group is one of the world's largest and most successful marketing and communications services groups. Our philosophy is that through creativity and ideas comes growth no matter what business stream you apply it to.

Our business model has again prevailed in challenging market conditions, and we have continued on our growth trajectory in 2011. Our revenue and profit growth reflects improved performance across all our communications disciplines and prudent control of costs at the parent company level.

STW has a three-pillared strategic growth focus: to drive growth out of our leadership positions in Australia and New Zealand; to continue to grow and dominate in digital; and to selectively and carefully expand our footprint into new markets in South East Asia.

In 2011, we have made good progress on these strategic goals.

COME

CHAIRMAN'S REPORT
ROBERT MACTIER

DEAR SHAREHOLDERS,

In my fourth annual report as Chairman of STW, I am pleased to say that the consistency in my annual message to you is maintained and with each successive year my confidence in the positioning of STW and the opportunities in front of us continues to grow.

2011 was another year in which the foundations that we have been putting in place to build STW into a more collaborative and unified marketing and communications group continued to pay dividends. Our reported results for 2011 were solid, albeit not spectacular, but importantly they were achieved against the backdrop of continuing reinvestment into our businesses; ubiquitous challenging economic conditions; and, for our colleagues in New Zealand and Queensland, were delivered in the face of catastrophic natural disasters.

We were pleased to announce for the year ended 31 December 2011:

— an increase of 6.1% in proportional revenue to $322.7 million

— an increase of 6.8% in underlying net profit to $41.3 million

— a full year dividend of 8.0 cents per share, an increase of 23.1%.

I believe that shareholders should be pleased with the results for 2011 and importantly can look forward to the prospect of continuing growth.

Our view is that no other marketing and communications company or group of companies in Australasia has the competitive advantage of being able to tap into a comparable breadth of capability, experience, knowledge and relationships that is the STW of today. As such, if we continue to focus on the strategic path we have set ourselves, we should be successful in winning market share because STW Group companies quite simply, pound for pound, can deliver more to their clients than our competitors can.

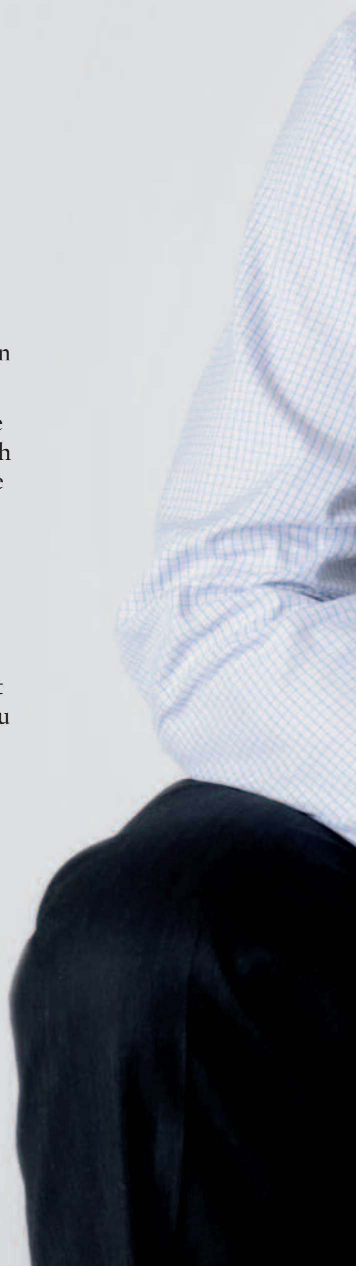
In late 2011, we announced some start-ups and acquisitions in South East Asia. We will approach this offshore expansion with measured caution but are genuinely excited about the opportunity that it affords STW to not only leverage our capabilities into these high growth regions but also to import high quality production and digital capability to enable us to constantly enhance the quality and cost effectiveness of our offering to our existing client base.

To all our senior management team and our many employees, there is still much to do, plenty of opportunities to conquer and no doubt more economic headwinds to challenge us but you should feel justifiably proud of what you and STW have achieved in 2011. In particular to Mike, Chris and Lukas at central command, a job well done but as we all know a job still in progress. To my fellow Directors, your support, wisdom and guidance to me and to the management team during 2011 is again greatly appreciated.

To all our shareholders, I trust that the 23% increase in the total dividend is a signal of the confidence with which your Board and management team have as we embrace 2012. But please don't sit back and take for granted the rewards of the continuing improvement in STW's results......to paraphrase that well known politician......also "ask what you can do for your company". I am sure that you all have relationships with or knowledge of companies that could benefit from STW's market-leading capabilities. Please don't hesitate to throw the talent of STW a challenge if you know of companies that aren't yet using any of the STW Group companies to solve their marketing and communications needs.

Yours sincerely

Robert Mactier
Chairman



"The foundations that we have been putting in place to build STW into a more collaborative and unified marketing and communications group continued to pay dividends.

CEO'S REPORT MIKE CONNAGHAN

2011 WAS A YEAR WHICH PROVED THE RESILIENCE OF THE STW BUSINESS MODEL. 2012 WILL BE A DEFINING YEAR FOR STW.

Despite a tough economy and uncertainty on many fronts, we posted solid organic growth. It was all about market share gain. Revenue growth of 6% is, I believe, a fantastic achievement. We had to overcome the impact of some natural disasters, the media market itself only had low single digit growth and retail spending was very challenged, yet our businesses still achieved solid organic growth.

A very pleasing factor about this market share gain is that those gains provide us with great momentum coming into 2012. If we are able to maintain growth with our loyal clients and continue to grow our influence with them and introduce new clients to the collective strengths of STW, 2012 should be a good year.

We are very confident that we have the mix right. Our businesses are at the top of their field be it in Advertising, Public Relations, Design, Digital or Media. We are building in Field and Shopper Marketing. We intend to build an excellent business in this growing segment, and if we can replicate just some of the success we have achieved across the other marketing communications disciplines, we will quickly have a business of scale, generating healthy profits for the Group.

We communicated to you our three-pillared strategy of: (a) maintaining our market dominance in Australia and New Zealand, (b) continuing to lead in Digital, investing in new technologies and strategies; and (c) opening up new revenue streams outside of Australia and New Zealand, particularly close to home in South East Asia.

I am pleased to report all three pillars of our strategy are strong and we remain on track to benefit from further market share gain and geographic expansion, setting the STW Group up as the pre-eminent marketing communications group in our region for many years to come.

2011 saw our expansion of IKON, our fantastic media business, into a truly Australia/New Zealand-wide network. We have expanded the footprint of DT Digital from Melbourne to Sydney and Brisbane. Alpha Salmon from Sydney now has thriving offices in Jakarta and Singapore. Massive and Moon continue to work for big global clients out of their London and New York offices and Designworks is doing important work for clients like Cathay Pacific in Asia. This export of our intellectual property underlines the exciting opportunity that exists for our hugely talented people.

We have welcomed a number of new businesses into the STW Group. Most notably, in the Digital sphere with the acquisition of Bullseye (Sydney and Indonesia) and EDGE (Thailand and Vietnam).

We have also been busy incubating new businesses. Barton Deakin (Public Affairs), Houston (Strategy/Consulting) and Bohemia (Media Content Management). The strength of the STW Group has allowed us to continue this incubation investment while still delivering solid growth for shareholders.

2011 was another big year for the Group in training and development. One of the things I am most proud of is the spirit we have developed at STW. We see our culture as a key differentiator and the collaboration and trust engendered between our companies and people pay dividends for all stakeholders, but most importantly, our clients. Clients are entrusting more of their work to more of our companies. The world has become a far more connected place and with that comes huge change. The collective knowledge and skills that STW people can bring to the table to help clients navigate the change are unparalleled in our regions.

We have just completed our annual Leadership Day with our top 400 people. What a fantastic day of inspiration. I wish we could find a way for our shareholders to share the experience. On that day,

we announced the winner of our Dashboard awards for the companies that stood out above all others in 2011. The business of the year was awarded to The Brand Agency, and I'd like to thank and congratulate Ken James and Steve Harris for building one of the best Australian Agencies of all time.

I'd like to thank my two key colleagues Chris Savage (COO) and Lukas Aviani (CFO). We spend a lot of our lives together in very exciting, diverse and demanding scenarios. Without their hard work, insightfulness, resilience and good humour, it would be impossible.

From Rob Mactier and the whole STW Board, we have a clearly defined strategy and have had the benefit of their full support through good times and bad. In any business, particularly one so heavily reliant on people, there will always be times when taking the easier, less daring road is more attractive. Thankfully, we have a clear vision of our future and to the Board I thank you for your support and guidance.

In summary, I believe 2012 will be a defining year for STW. We have a great business, we have momentum on our side and I am very confident that our loyal shareholders will be rewarded with not just a solid result but a stronger, fitter, future-focused company taking on the world.

Mike Connaghan
CEO

We see our culture as a key differentiator and the collaboration and trust engendered between our companies and people pay dividends for all stakeholders, but most importantly, our clients. ”

WHO WE ARE

The STW Group is made up of over 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 company 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.

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 painting, 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.

— Delivering 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 the consumer.

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

It's what we do. It's what we've always done. What's 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, whether they're 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. The feedback we receive from these courses is consistently positive and shows the great value they bring.

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.

ADCast marketing automation
Cornwell
MINDSHARE
bohemia

amr Research directions that matter
PULSE COMMUNICATIONS
massive
Shift

Ogilvy SYDNEY
theMissingLINK
catalyst marketing, communications & online
Houston.

pHuel
Hawker Britton Public Affairs Solutions
Parker&Partners An Ogilvy PR Worldwide Company
evocatif BUILDING BRANDS WHERE IT COUNTS

enigma
barton deakin Government Relations
JAM
TRIBE

Lawrence.
IK N
THE ORU ONLINE RESEARCH UNIT
etcom

bullseye
ADDEDVALUE
RESEARCH AUSTRALIA [Touchpoint]
PARAGON DESIGN GROUP

OgilvyEarth
alphasalmon
CANNINGS CORPORATE COMMUNICATIONS
punch Sales Communications

stw group
purple communications
Spinach
BENTO

SMOLLAN AUSTRALIA FIELDMARKETING

OgilvyAction

taguchimail
opt-in mixed broadcast email

brain department

THE BRAND AGENCY

dtdigital

OgilvyImpact
An Ogilvy PR Worldwide Company

feedback asap

Ogilvy Public Relations

Tongue

edge

subnine

im promos

BADJAR Ogilvy

neo@Ogilvy

MOON

Assignment

hainesattract

designworks

maxus

ONE20

human

im advertising

Buchanan Group

Ogilvy New Zealand

OgilvyOne worldwide

yellow edge

JWT

HOED
The Customer Experience Company

junior

Ogilvy PR Health

haylix

HOWORTH

white

Ogilvy INTERACTIVE

— During the year, STW announced our first investments in the emerging economies of South East Asia – our first step in establishing a solid foundation for growth in Asia. These acquisitions were:

— A majority position in **Edge Marketing Ltd**, Indochina's largest independent marketing agency, with major offices in Vietnam and also in Thailand;

– A majority position in **Bullseye**, one of Australia's leading independent integrated digital marketing and technology services businesses, with the largest integrated digital production facility in Indonesia; and

– The opening in Jakarta and Singapore of offices of **Alpha Salmon**, a wholly-owned and highly successful STW Group digital solutions business.

It is still 'early days' in STW's growth plans in Asia, however, we are encouraged by the momentum gained in a short period. Our priority in 2012 is bedding down these new investments, leveraging synergies and growth opportunities, and delivering outstanding results to clients. At the same time, we'll be identifying and developing new opportunities where it makes sense.

IDEAS THAT CREATE

A strategic focus for STW is to selectively and carefully expand our footprint into new markets in Asia. Our investigations in Asia clearly demonstrated we have intellectual property and capability within STW which we can export to and grow fast in Asia, both through opening our own capabilities in the right markets, and also by investing in and then adding momentum and differentiation to leading and established 'on the ground' businesses. We also found STW Group's 'local' characteristics and accessibility were warmly welcomed by potential vendors. This has enabled us to essentially 'cherry-pick' our first step into Asia, and we're delighted with the outcome.

EXPANSION

Asia

IDEAS THAT CREATE GROWTH

STW Group is comprised of over 70 specialist companies, each outstanding in its own right. Our Group covers the breadth and depth of every communication discipline possible. This includes advertising, digital communication, production, branded content, retail and promotional marketing, sports sponsorship and management, brand and corporate design, business strategy, market research and insight, public relations, corporate communication, employee communication, multicultural communication, training and facilitation. Through creativity, growth was exponential across many of our companies and for their clients.

COCA COLA CAMPAIGN
OGILVY AND IKON

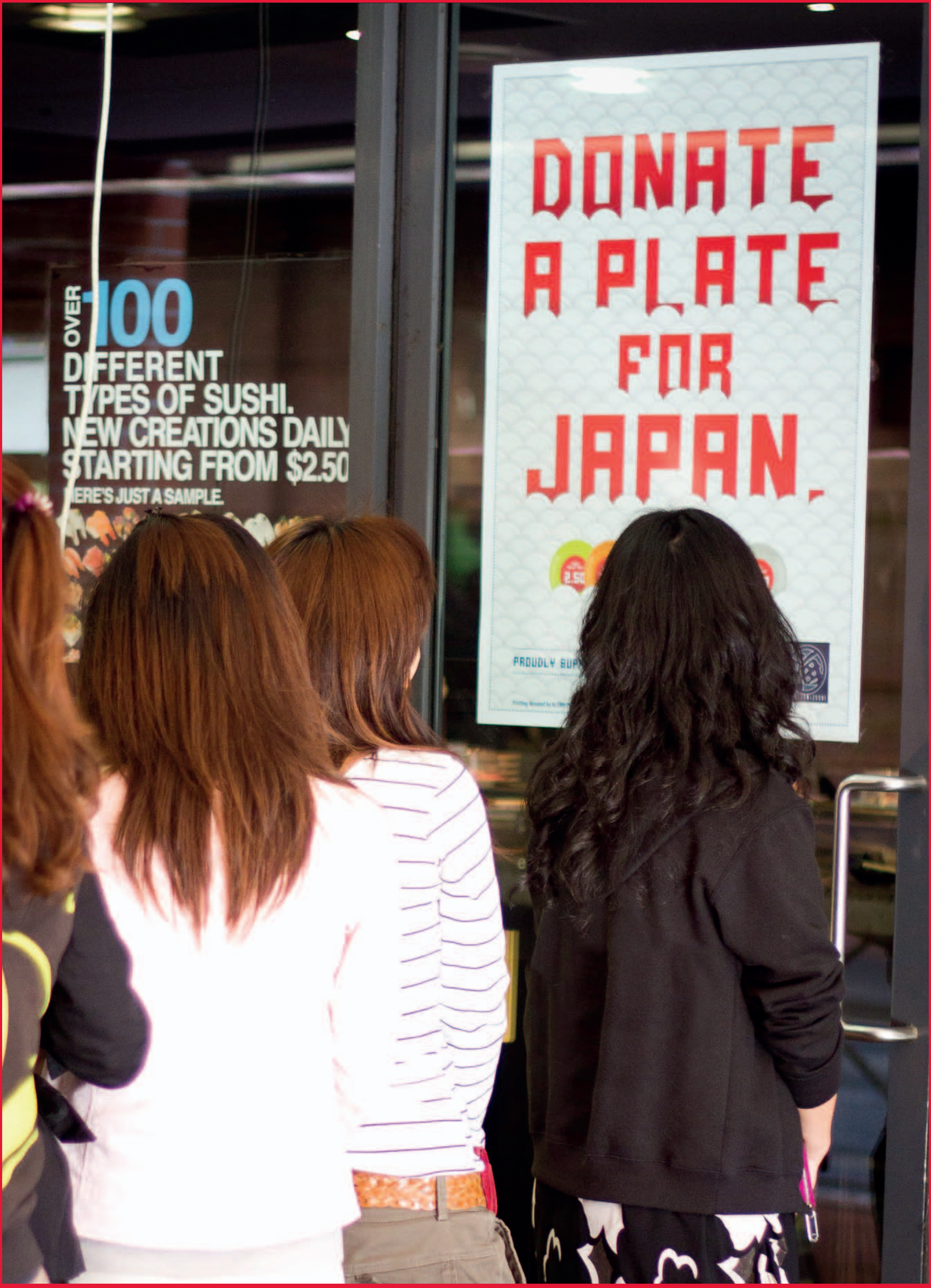
SUSHI TRAIN JWT

JAPAN EARTHQUAKE APPEAL

On 11 March 2011, Japan was rocked by an earthquake and tsunami. Tens of thousands of people perished as towns were literally washed away. To help raise funds, JWT Sydney created special donation plates that were placed on the sushi trains around Sydney. Different coloured plates were valued at different amounts, in line with the pricing of the standard sushi plates. Customers were invited to pick up the plates and pay their donation at the cashier, along with the rest of their bill. Proceeds were sent to Red Cross Japan. The campaign has been running for several months and thousands of dollars have been raised.

IDEAS FOR CAUSE

Some of our greatest achievements this past year have come not from a brief or a business objective, but from the goodwill and sheer passion of our people. The success of these campaigns is measured by how they touched people's hearts and lives. And touch them they did.


OVER 100
DIFFERENT
TYPES OF SUSHI.
NEW CREATIONS DAILY
STARTING FROM $2.50
HERE'S JUST A SAMPLE.
DONATE
A PLATE
FOR
JAPAN.

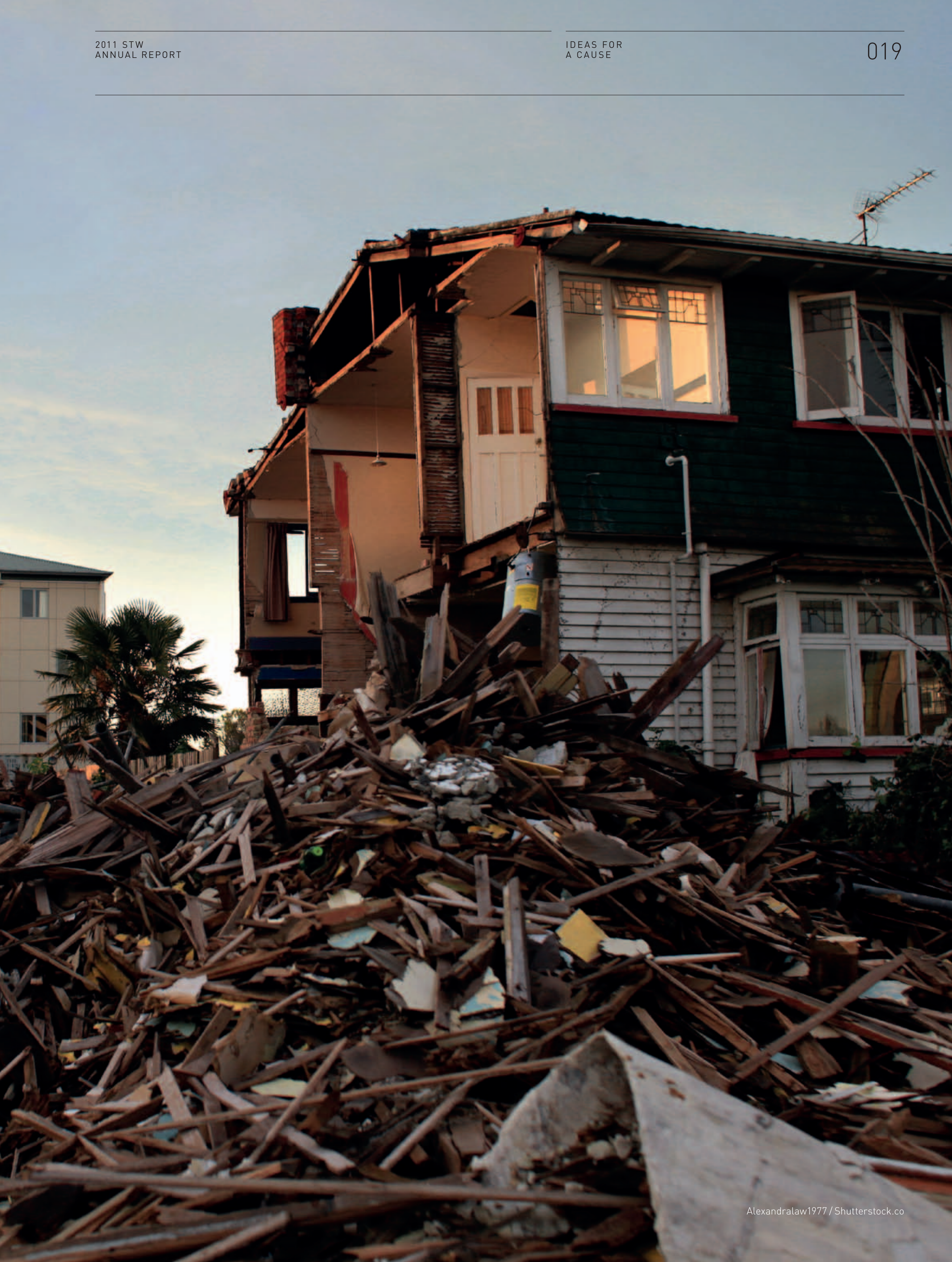
LET'S FIX IT DESIGNWORKS

CHRISTCHURCH EARTHQUAKE CLEAN-UP

On 22 February 2011, a massive earthquake devastated Christchurch with over 180 lives lost. Designworks CEO, Sven Baker, narrowly escaped the same fate, emerging from a collapsed building to a scene of total chaos. On his return to Wellington, his team set their minds to helping the people of Christchurch. Let's Fix It was established to connect families with volunteer tradies to get clean running water in every home. For three months, over 90 plumbers, gasfitters and drain layers worked tirelessly to fix domestic water and sewerage systems for over 250 families.

> "Let's Fix It was established to connect families with volunteer tradies to get clean running water in every home

Illustration: Scott Kennedy



Alexandralaw1977 / Shutterstock.co

Training is a key priority for the STW Group. We're committed to providing quality education and training to our employees to assist with their career development and retention. The STW Group has a three-tiered learning and development strategy.

PEO

IDEAS THAT GROW

At STW, we offer a broad range of training and development programs to ensure our employees are given every opportunity to continually learn and advance their careers. The skills, knowledge and capabilities of our people is of the upmost importance to us. We believe that ongoing professional development is critical for the individual, the team, the organisation and most importantly our clients. Our business is our people.

HELEN O'BYRNE
DIRECTOR LEARNING & DEVELOPMENT
STW GROUP

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SPUR

SPUR provides training and education for all STW Group staff. A state-of-the-art booking system and website allows staff to access the system and book a place. Staff can browse the courses available and read about the different facilitators and the companies leading the modules. They can view dates and request to go on a course via approval from management. This has provided a more interactive setting with staff taking an interest in the courses on offer and matching those to their appraisal needs. The ability to send staff on a per person basis and share the overall cost with other STW Group companies has made training a much more affordable process. It also has the benefit of networking amongst other staff outside their immediate company discipline and additionally not having large groups of staff away in one go, but booking people across various roles and dates. SPUR is available to all STW Group staff located in Sydney, Melbourne, Brisbane, Perth, Adelaide and NZ.

SPUR will be available in Asia later this year.

2011 Achievements:

- Excellent year, a record level of employee engagement.
- 1,400 individuals attended a SPUR program.
- Over 59% participation – increase of 10% from 2010!
- Delivered over 80 individual training sessions.
- Significant volume increase from smaller STW Group companies.
- Extended the SPUR curriculum with six new programs.

2012 Learning and Development Objectives:

- Up-skill quality of 'client service' offering across the Group.
- Create awareness and confidence for senior people to lead companies through digital growth.
- Deliver third tier of executive education and create appraisal/career development process for senior leaders.
- Embed 'STW Code of Business Conduct' throughout the Group.

SPUR 2012 Objectives:

- Rollout of the 'STW Digital Academy'.
- Improve the pitch process across the Group.
- Improve the 'Path To Growth' process and increase participation rates.
- Increase SPUR participation rates and add new programs.

THE STW GROUP HIGH POTENTIALS PROGRAM

This program is designed to fast track the careers of our future stars. At STW, we define high potential talent as an employee who is assessed as having the ability, organisational commitment and motivation to rise to and succeed in more senior positions in the organisation.

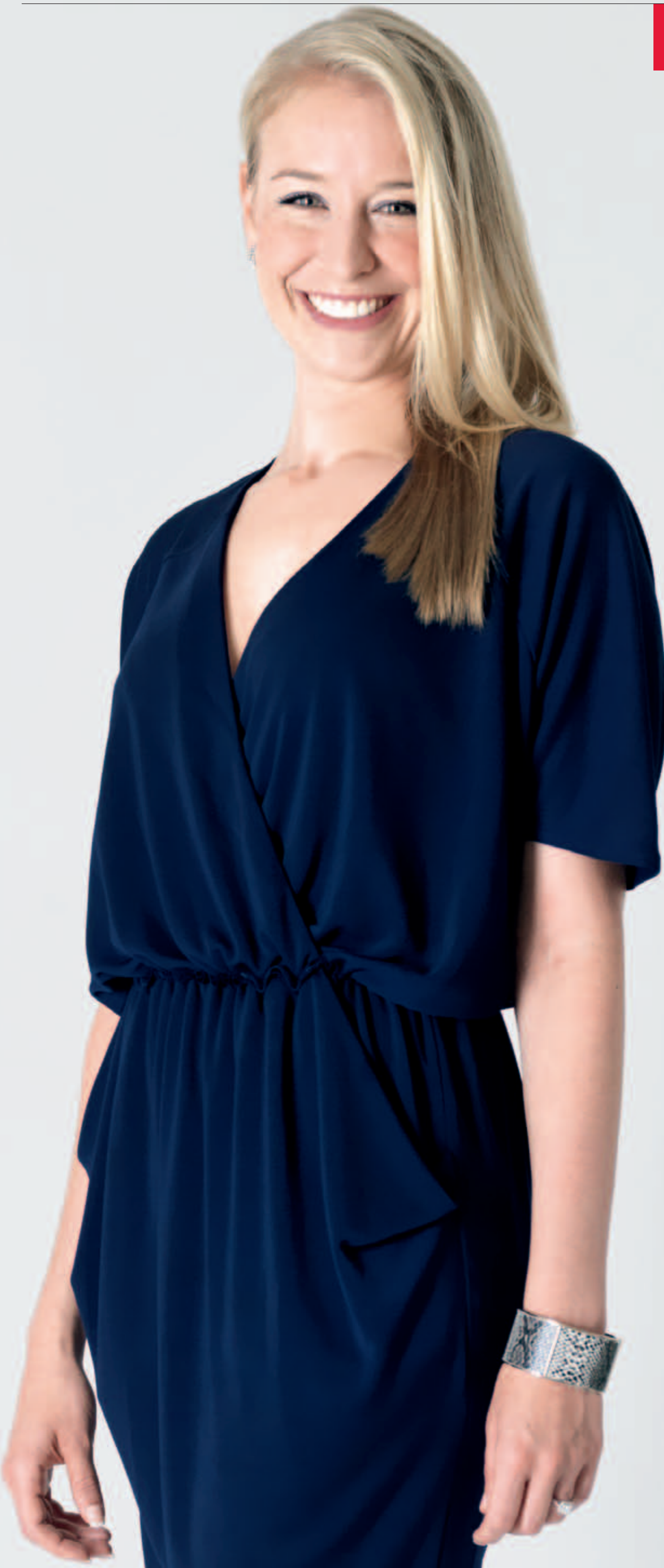
We have run the program since 2005 and have had over 300 participants complete the program so far. It's an intensive 12-month program, which includes four key retreats scheduled throughout the year. Our key objective is to ensure that our high potential employees remain employed within the STW Group and we aim to reassign participants in different roles if required.

PATH TO GROWTH

'Path To Growth' is a comprehensive and individualised approach to professional development specifically for STW's current and future leaders. Its primary objective is to create the most rewarding business and creative working environment for company leaders and ensure they have the capabilities and expertise needed to fulfil their roles, develop themselves and their careers, adapt to change and assist in developing others.

The 'Path To Growth' initiative has been designed for the senior STW leadership team. This includes STW's current and future leaders. Current leaders are essentially existing managing directors of STW Group Companies. Future leaders are defined by their potential to succeed these existing managing directors. They are senior managers who have been selected by their company managing directors based upon the level of seniority they hold within their companies.

In establishing this program, STW sees it as a key responsibility of all leaders to take personal ownership of their professional growth to ensure they continue to develop the capabilities and the expertise necessary to fulfil their roles and advance their careers. We have an extensive range of executive education programs available via 'Path To Growth' for all senior executives to access.



Being part of the STW High Potentials program has meant a great deal to me personally. Knowing that my company (Moon Communications) and STW are committed to progressing my career and that they recognise hard work is fabulous. The networking with High Potentials from other STW Group companies has also been of great benefit. Not only have I made new friends but I've made business contacts that will last through my career.

KATHERINE HINCHEY
SENIOR ACCOUNT DIRECTOR

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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.

Rob is a Non-executive Director of Aurora Community Television Limited.

Rob is a member of the Audit and Risk Committee.

MICHAEL CONNAGHAN

BA
Chief Executive Officer and Executive Director

Mr Connaghan was appointed 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 ("JSA") in 1993 to guide the Telecom Australia account through the country's telecommunication deregulation.

In 2001, Mr Connaghan moved to STW, as Managing Director of Diversified Companies. He represented STW's interests and participated in the management of over 30 marketing communications companies, and oversaw acquisitions, expansion and growth of the Diversified Group.

Mr Connaghan joined J. Walter Thompson International Limited ("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.

Mr Connaghan is a Director of the Australian Association of National Advertisers and Chairman of the Board for the charity 'R U OK? Day'.

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 ("WPP"), 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 has extensive business operational experience, having managed both public and private companies throughout his career. Ian is a former Managing Director of Howard Smith Limited, Commander Communications Limited and Australian Discount Retail Pty Limited and Chief Executive Officer of The Warehouse Group Australia.

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

Ian is Chairman of the Remuneration and Nominations Committee and a member of the Audit and Risk 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 ChallengerLimited, Bell Financial Group Limited, White Energy Company Limited and McPherson's Limited and serves on the Audit Committee for each of these companies.

Graham is Chairman of the Auditand Risk Committee and a member of the Remuneration and Nominations Committee.

PETER CULLINANE

MBA MMGT
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 New Zealand 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 SKY CITY 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.

Ms Anderson is a Director of carsales.com Limited, Chief Executive of The Reading Room (thereadingroom.com), which is a community/social networking site for readers, a former 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.

Kim 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 2011 (collectively the "STW Group", the "Group" or the "consolidated entity").

DIRECTORS

The following persons were Directors of the Company during the whole of the year and up to the date of this report (unless otherwise indicated):
Robert Mactier (Chairman)
Russell Tate (Deputy Chairman) (resigned 10 May 2011)
Anne Keating (resigned 10 February 2011)
Paul Richardson
Ian Tsicalas
Graham Cubbin
Michael Connaghan
Peter Cullinane
Kim Anderson.

Particulars of Directors' qualifications, experience and directorships in other listed entities are set out on pages 24 and 25 in this Annual Report.

PRINCIPAL ACTIVITIES

The principal activities of the STW Group during the year were advertising and diversified communications operations. The Group 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 2011 year was $40.9 million, up 5.8% (2010: $38.7 million).

The Company's underlying profit was $41.3 million, up 6.8% (2010: $38.7 million).

The significant items in the 31 December 2011 year relate to costs incurred attributable to capital acquisitions.

There were no significant items reported in the 31 December 2010 year.

The Group has continued on its growth trajectory in 2011. The Group's revenue and profit growth reflects improved performance across all our communications disciplines. Earnings growth in 2011 was driven by organic growth and we remain focused on extracting maximum value from our existing portfolio of companies. The STW Group has continued to grow revenues and gain market share and our new business pipeline remains strong.

	2011 $million	2010 $million	Change
Total revenue (including share of net profits from jointly controlled entities)	324.3	320.6	
Underlying EBITDA	81.5	80.4	
Net profit after tax before elimination of non-controlling interests	51.2	49.5	
Non-controlling interests	(9.9)	(10.8)	
Underlying profit	**41.3**	**38.7**	**6.8%**
Significant items	(0.4)	–	
Statutory profit	**40.9**	**38.7**	**5.8%**
Cash	27.1	43.8	
Debt	111.9	77.3	
Net debt	84.8	33.5	
	Cents per Share	**Cents per Share**	
EPS - statutory profit	11.4	10.8	
EPS - underlying profit	11.5	10.8	

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:

	2011 $million	2010 $million	Change
Statutory profit	**40.9**	**38.7**	
Capital acquisition costs	0.4	–	
Underlying profit	**41.3**	**38.7**	**6.8%**

The capital acquisition costs relate to professional fees incurred in relation to new acquisitions. This has been disclosed as a significant item due to the change in accounting treatment which no longer allows acquisition related costs to be capitalised under AASB 3 "Business Combinations."

CASH, GROSS DEBT AND FACILITIES

As at 31 December 2011, the Group's cash and gross debt balances were $27.1 million (2010: $43.8 million) and $111.9 million (2010: $77.3 million) respectively.

2011 saw a significant increase in the settlement of earnout liabilities along with payments for new acquisitions leading to a cash outflow of $44.2 million. This, coupled with a winding back of the Group's working capital position, sees the net drawn debt position increase to $84.8 million at 31 December 2011 (2010: $33.5 million). Despite the increase in net debt, the Group's balance sheet and capital position remain robust.

The Group has total estimated earnout liabilities of $21.9 million as at 31 December 2011 (2010: $42.6 million). The Company 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.

BANKING FACILITIES

The Group has access to debt facilities totalling $173.2 million (of which $111.9 million is drawn). Of these facilities, $3.2 million is due for review in July 2012 and $170.0 million matures in January 2014.

The Company implemented a share buy-back program during 2011. During the year, the Company acquired 1,512,613 shares at an average price of $0.85 per share. It is anticipated that the share buy-back program will continue in 2012, subject to market and trading conditions.

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 2010	4.2	15.3	100%
Interim 2011	3.0	10.9	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 $18.1 million (5.0 cents per fully paid ordinary share) payable on 20 April 2012.

The full year dividend represents a payout ratio of 70% of underlying profit. The increase in absolute dividend and dividend payout ratio is in line with the Company's target payout ratio of between 60% to 70% of underlying profit.

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	11	11	3	3	–	–
Russell Tate	2	3	–	–	1	1
Anne Keating	1	1	–	–	–	–
Paul Richardson	10	11	–	–	–	–
Ian Tsicalas	11	11	3	3	3	3
Graham Cubbin	11	11	3	3	2	2
Michael Connaghan	11	11	–	–	–	–
Peter Cullinane	11	11	–	–	–	–
Kim Anderson	11	11	–	–	3	3

* Reflects the number of meetings the Director was eligible to attend during the time the Director held office during the 2011 year.

DIRECTORS' REPORT (CONTINUED)

	Balance as at 1-Jan-11	Acquisitions	Disposals	Balance as at 31-Dec-11	Post year-end acquisitions	Post year-end disposals	Post year-end balance
Ordinary shares							
Robert Mactier	562,500	–	–	**562,500**	–	–	**562,500**
Paul Richardson	–	–	–	**–**	–	–	**–**
Ian Tsicalas	50,000	–	–	**50,000**	–	–	**50,000**
Graham Cubbin	100,000	–	–	**100,000**	–	–	**100,000**
Michael Connaghan	838,870	–	–	**838,870**	–	(800,000)	**38,870**
Peter Cullinane	4,500	30,000	–	**34,500**	–	–	**34,500**
Kim Anderson	–	–	–	**–**	–	–	**–**
Total	**1,555,870**	**30,000**	**–**	**1,585,870**	**–**	**(800,000)**	**785,870**

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 (resigned 10 May 2011)
Anne Keating (resigned 10 February 2011)
Kim Anderson (appointed 10 February 2011)
Graham Cubbin (appointed 10 May 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 30.

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 was 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 to the 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 undermines the general principles 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 auditor's 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 31 and forms part of this Director's Report.

Signed in accordance with a resolution of the Directors:

Robert Mactier	**Michael Connaghan**
Chairman	Chief Executive Officer
30 March 2012	

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

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

30 March 2012

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 2011, 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

DELOITTE TOUCHE TOHMATSU

Stephen Holdstock
Partner
Chartered Accountants
Sydney, 30 March 2012

REMUNERATION REPORT

1. REMUNERATION REPORT

This Remuneration Report includes details, and an explanation, of the remuneration strategies for key management personnel of the Group. The key management personnel of the Group are defined under Australian Accounting Standard AASB 124 Related Party Disclosures to include the Non-executive Directors, the Executive Directors and those persons with authority and responsibility for planning, directing and controlling the activities of the Group during the year. The key management personnel, other than the Non-executive Directors, are referred to throughout this Remuneration Report as 'senior executives'.

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

2. REMUNERATION PHILOSOPHY AND REMUNERATION AND NOMINATIONS COMMITTEE

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 Board has a formal Charter for the Remuneration and Nominations Committee which prescribes the responsibilities, composition and meeting rules of the Committee. Under the Charter, the Committee must be comprised of a majority of Non-executive Directors who are independent.

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 and approve employee remuneration strategies and frameworks;
- oversee the development and implementation of employee remuneration programs, performance management and succession planning with the goal of attracting, motivating and retaining high quality people;
- review and recommend to the Board for approval the goals and objectives relevant to the remuneration of the Chief Executive Officer ("CEO"), assist the Board to evaluate the performance of the CEO in light of those goals and objectives, and to recommend to the Board the CEO's remuneration (including incentive payments) based on this evaluation;
- review the principles to apply to contractual terms of employment for direct reports to the CEO including base pay, incentives, superannuation arrangements, retention arrangements, termination payments, performance goals, performance-based evaluation procedures and succession plans;
- make recommendations to the Board on Directors' fees and review and recommend the aggregate remuneration of Non-executive Directors to be approved by shareholders; and
- review and approve measurable objectives for achieving gender diversity and assess annually both the objectives and progress in achieving them.

The Committee commissions reports from independent remuneration experts on market relativities and other matters relating to remuneration practices to assist it with setting appropriate remuneration levels and processes. The Committee reviews this external remuneration advice in the light of the various individuals' performance. In November 2011, the Committee received advice from Guerdon Associates to assist in setting the base pay for the CEO and his direct reports for the 2012 year.

3. 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 and operating in a comparable market segment to the Group.

REMUNERATION REPORT (CONTINUED)

3. EXECUTIVE REMUNERATION (CONTINUED)

DIRECTORS REMUNERATION SUMMARY

	Elements of Remuneration	Non-Executive	Chief Executive Officer	Other Senior Executives	Discussion in Remuneration Report
Fixed remuneration	Fees	Y	N	N	Page 44
	Salaries	N	Y	Y	Page 32-34
	Superannuation and other benefits	Y	Y	Y	Page 32-34
At risk remuneration	Short-term incentives	N	Y	Y	Page 32-34
	Long-term incentives	N	Y	Y	Page 34-44
Post employment	Notice periods and termination payments	N	Y	Y	Page 45

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.

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.

At-risk remuneration

At-risk remuneration is provided through:

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

Payment of performance-based incentives is determined by the financial performance of the Company and the personal performance of the individual executive against objectives set at the beginning of the year. The CEO conducts performance reviews with his direct reports each year, and presents the outcomes and proposed incentive payments to the Remuneration and Nominations Committee.
The Remuneration and Nominations Committee reviews and approves the remuneration packages and bonus payments to the CEO's direct reports. On the recommendations of the CEO, the Remuneration and Nominations Committee also reviews and approves the key performance indicators for the CEO's direct reports for the following year. Performance evaluations in accordance with this framework have taken place for senior executives for the year ended 31 December 2011.

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:

	2011	2010	2009	2008	2007
Underlying NPAT ($million)	41.3	38.7	33.1	39.1	41.6
Earnings per share before significant items (cents per share)	11.5	10.8	11.1	20.2	21.0
Dividends per share (cents per share)	8.0	6.5	3.5	8.0	12.0
Share price (year end)	$0.84	$1.06	$0.74	$0.72	$2.28
* Total shareholder return ("TSR") (% per annum)	(13.2%)	52.0%	7.6%	(64.9%)	(22.8%)

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

4. REMUNERATION OF THE CHIEF EXECUTIVE OFFICER

2011 Year

The Company's CEO is Michael Connaghan.

The key terms of Mr Connaghan's executive service agreement with the Company sets out the entitlements of his remuneration including fixed remuneration, short-term incentives and long-term incentives under the executive share plan.

Mr Connaghan's fixed remuneration for the 2011 year was $850,000 per annum. This fixed remuneration represents total fixed cost to the Company including superannuation and other benefits except as set out below.

Short-Term Incentive Plan

Mr Connaghan was eligible for a payment of up to $500,000 under the short-term incentive plan, depending on achievement of defined performance criteria set by the Chairman and the Remuneration and Nominations Committee.

Seventy five percent of the maximum annual entitlement payable under the short-term incentive plan is based on achieving a NPAT target. Mr Connaghan is rewarded for performance between 100% and 105% of the NPAT target (at which point the maximum entitlement is received).

The remaining incentive is based on meeting non-financial, personal objectives set by the Board each year. 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.

Subject to the satisfaction of the performance conditions, 50% of the entitlement under the short-term incentive plan will be paid in cash and 50% will be deferred and paid in shares.

The cash component of the short-term incentive plan will be payable after the Company's financial results for the year ended 31 December 2011 have been finalised. This was paid in February 2012.

The deferred component of the short-term incentive plan will be paid in shares. The shares purchased for the deferred component are valued at face value based on the volume weighted average market price over the 10 days immediately prior to the release of the Company's financial results for the year ended 31 December 2011.

The shares will be held on Trust for two years and Mr Connaghan receives dividends on the shares during this period.

At the end of the two year period, the ownership of the shares is transferred to Mr Connaghan. If Mr Connaghan resigns or is terminated for cause prior to the end of the two year period, he will forfeit the shares.

Following the end of the 2011 year, the Board determined that Mr Connaghan was entitled to 77.5% of the maximum annual entitlement payable under the short-term incentive plan. Mr Connaghan achieved 70% of the financial component of the short-term incentive plan and 100% relating to the non-financial component.

Long-Term Incentive Plan

Mr Connaghan has been granted 178,125 shares in the Company's executive share plan that will vest subject to the achievement of performance conditions. These shares vest on the terms set out in Section 6 - Share-based compensation.

REMUNERATION REPORT (CONTINUED)

4. REMUNERATION OF THE CHIEF EXECUTIVE OFFICER (CONTINUED)

2012 Year

The Board set new remuneration arrangements that will apply to Mr Connaghan for the 2012 calendar year. Mr Connaghan's fixed remuneration of $850,000 per year will remain unchanged. He will also be eligible for participation in the Company's short-term incentive plan and Executive Share Plan.

Short-Term Incentive Plan

Subject to shareholder approval, Mr Connaghan will be eligible for a payment of up to $500,000 under the short-term incentive plan, depending on achievement of defined performance criteria set by the Chairman and the Remuneration and Nominations Committee.

There are no changes to the terms and conditions relating to the 2012 short-term incentive plan.

Long-Term Incentive Plan

Subject to shareholder approval, Mr Connaghan is to be granted 356,250 shares in the Company's executive share plan that will vest subject to the achievement of performance conditions. These shares vest on the terms set out in Section 6 - Share-based compensation.

5. SHORT-TERM INCENTIVES - SENIOR EXECUTIVES

STW Group's short-term incentives to senior executives 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. Each senior executive has a target bonus opportunity depending on the accountabilities of the role and impact on Company or business unit performance.
- An executive will receive between 75% of the maximum annual entitlement payable under the short-term incentive plan based on meeting Group financial targets. The financial targets are based on the Group achieving a NPAT target and the executive will be rewarded for performance between 100% and 105% of the NPAT target (at which point the maximum entitlement is received).
- An executive will receive between 25% 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.
- Following the end of the 2011 year, senior executives were paid 77.5% of their maximum entitlements under the short-term incentive plan.

6. 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 CEO, 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 2011, 6,652,333 (2010: 6,652,333) 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 testing window	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	2011-2013	1-Mar-14	1-Mar-15	$1.10
February 2011	Overperformance Plan	2011-2013	1-Mar-14	1-Mar-15	$1.10
February 2012	Base Plan	2012-2014	1-Mar-15	1-Mar-16	$0.84
February 2012	Overperformance Plan	2012-2014	1-Mar-15	1-Mar-16	$0.84

Details of shares in the Company provided as remuneration to key management personnel ("KMP") 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	
	2011	2010	2011	2010
Director				
Mike Connaghan	178,125	1,068,750	–	–
Other KMP				
Chris Savage	178,125	534,375	99,000	–
Lukas Aviani	95,000	249,375	–	–

The assessed fair values 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)

6. SHARE-BASED COMPENSATION (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 34, 35, 37 and 105.

Performance shares	The trustee, CPU Plan Managers Pty Limited, holds the performance shares and all rights and entitlements attaching to the shares on the executive's behalf, subject to the terms of the Trust Deed establishing the ESP and the ESP Rules. No dividends are paid to executives on unvested performance shares.
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 continues 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 satisfised.

SHARES GRANTED TO EXECUTIVES – 2009 BASE PLAN

The 2009 base plan operates with effect from 1 January 2009 to 31 December 2011.

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 a 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 Rate 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 those of 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 below:

REMUNERATION REPORT (CONTINUED)

6. SHARE-BASED COMPENSATION (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 BASE PLAN

The 2010 base plan operates with effect from 1 January 2010 to 31 December 2012.

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 plan.

EPS will be measured by the average compound annual growth ("CAGR") 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 a compound EPS Growth Rate 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 those of 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 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)

6. SHARE-BASED COMPENSATION (CONTINUED)

PERFORMANCE CONDITIONS (CONTINUED)

SHARES GRANTED TO EXECUTIVES – 2010 OVERPERFORMANCE PLAN

The 2010 overperformance plan operates with effect from 1 January 2010 to 31 December 2012.

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 overperformance plan.

EPS will be measured by the average compound annual growth ("CAGR") 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 a compounded EPS Growth Rate 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 BASE PLAN

The 2011 base plan operates with effect from 1 January 2011 to 31 December 2013.

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 ("CAGR") 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 a compounded EPS Growth Rate 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 those of 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 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 2014. Any performance shares that do not vest over the performance period will be forfeited.

REMUNERATION REPORT (CONTINUED)

6. SHARE-BASED COMPENSATION (CONTINUED)

PERFORMANCE CONDITIONS (CONTINUED)

SHARES GRANTED TO EXECUTIVES – 2011 OVERPERFORMANCE PLAN

The 2011 overperformance plan operates with effect from 1 January 2011 to 31 December 2013.

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 ("CAGR") 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 a compounded EPS Growth Rate 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.

SHARES GRANTED TO EXECUTIVES – 2012 BASE PLAN

The 2012 base plan operates with effect from 1 January 2012 to 31 December 2014.

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 2012 and 2014 calendar years (using the Group's normalised 2011 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 2012 and 2014 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 3% CAGR	10%	Nil
3% CAGR	20%	7.5%
4% CAGR	30%	15%
5% CAGR	40%	22.5%
6% CAGR	50%	37.5%
7% CAGR	70%	52.5%
8% CAGR	100%	75%

The Board believes that the performance condition relating to the EPS Growth Rate target is appropriate, rewarding executives for a compounded EPS Growth Rate of between 3% and 8%.

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 2012 and 2014 compared with the TSR performance of a Comparator Group of companies.

The TSR performance condition compares the Company's TSR ranking at 31 December 2014 (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 2012 and 2014.

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 those of 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 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 2015.
Any performance shares that do not vest over the performance period will be forfeited.

REMUNERATION REPORT (CONTINUED)

6. SHARE-BASED COMPENSATION (CONTINUED)

PERFORMANCE CONDITIONS (CONTINUED)

SHARES GRANTED TO EXECUTIVES – 2012 OVERPERFORMANCE PLAN

The 2012 overperformance plan operates with effect from 1 January 2012 to 31 December 2014.

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 2012 and 2014 calendar years (using the Group's normalised 2011 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 2012 and 2014 and will vest in accordance with the table below:

EPS Growth Rate	% of total performance shares that vest
Less than 8% CAGR	Nil
8% CAGR	20%
8% to 13% CAGR	Straight line pro-rata
13% CAGR or above	100%

The Board believes that the performance condition relating to the EPS Growth Rate target is appropriate, rewarding executives for a compounded EPS Growth Rate of between 8% and 13%.

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 2015.
Any performance shares that do not vest over the performance period will be forfeited.

7. 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.

8. CONTRACTUAL ARRANGEMENTS – CHIEF EXECUTIVE OFFICER AND SENIOR EXECUTIVES

The terms of employment of the CEO are set out in section 3 and below.

The remuneration and other terms of employment for the CEO and other senior executives are set out in written agreements. These service agreements are unlimited in term but may be terminated by written notice by either party or by the Company making payment in lieu of notice. They may also be terminated with cause as set out below. Each agreement sets out the fixed remuneration and termination rights. Entitlements relating to short-term incentive opportunities and obligations and eligibility to participate in the executive share plan are communicated annually to eligible executives.

Senior executive salaries are reviewed annually. The service agreements do not require the Company to increase fixed remuneration, pay short-term incentive bonuses or continue the senior executive's participation in the ESP. Key non-financial terms in the service agreements are set out below. Remuneration details are set out in Section 9 - Director and Other Key Management Personnel Remuneration and Other Disclosures.

The Company may terminate the employment of the senior executive without notice and without payment in lieu of notice in some circumstances. Generally, this includes the event of any act which detrimentally affects the Company such as dishonesty, fraud or serious or willful misconduct.

Termination of employment with notice and with payment in lieu of notice

The Company may terminate the employment of the senior executive at any time by giving them notice of termination or payment in lieu of such notice. The amount of notice required from the Company in these circumstances is set out in the table below.

SUMMARY OF EXECUTIVE SERVICE AGREEMENTS

Key provisions of the agreements relating to senior excutive remuneration as at 31 December 2011 are set out below:

Name	Michael Connaghan	Chris Savage	Lukas Aviani	Peter Cullinane
Position	Chief Executive Officer	Chief Operating Officer	Chief Financial Officer	Chief Executive Officer
Company	STW Communications Group Limited	STW Communications Group Limited	STW Communications Group Limited	Assignment Group New Zealand Limited
Contract expiry date	Ongoing	Ongoing	Ongoing	Ongoing
Short-term incentive plan (maximum entitlement)	31 December 2010 - $300,000 31 December 2011 - $500,000	31 December 2010 - $150,000 31 December 2011 - $150,000	31 December 2010 - $100,000 31 December 2011 - $110,000	–
Termination benefit (Company initiated)	12 months' notice	12 months' notice	6 months' notice	6 months' notice
Termination benefit (employee initiated)	6 months' notice	6 months' notice	3 months' notice	6 months' notice
Non-solicitation of personnel and clients	12 months	6 months	12 months	12 months
Non-compete	12 months	12 months	12 months	6 months

REMUNERATION REPORT (CONTINUED)

9. 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 2011 were:

Name	Current Position
Non-executive Directors	
Robert Mactier	Independent Chairman
Russell Tate (resigned 10 May 2011)	Non-independent Director
Anne Keating (resigned 10 February 2011)	Independent Director
Paul Richardson	Non-independent Director
Ian Tsicalas	Independent Director
Graham Cubbin	Independent Director
Kim Anderson	Independent Director
Executive Directors	
Michael Connaghan	Chief Executive Officer
Peter Cullinane	Managing Director of Assignment Group New Zealand Limited, a subsidiary of STW Group and Non-independent Director

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 2011 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	Chief Executive Officer - Lawrence
Tom Moult	Executive Chairman - Ogilvy & Mather Australia
Andrew Baxter	Chief Executive Officer - Ogilvy & Mather Australia

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 and senior executives of the consolidated entity for the 2011 year are as follows:

TABLE 1: KMP AND EXECUTIVE REMUNERATION FOR THE YEAR ENDED 31 DECEMBER 2011

	Short-term Employment Benefits		Post- Employment Benefits (a)	
	Cash Salary and Fees $	Cash Profit Sharing and Other Bonuses $	Superannuation $	Total $
Non-executive Directors				
Robert Mactier	169,725	–	15,275	185,000
Russell Tate (resigned 10 May 2011)	25,994	–	2,339	28,333
Anne Keating (resigned 10 February 2011)	8,898	–	801	9,699
Paul Richardson	–	–	–	–
Ian Tsicalas	91,743	–	8,257	100,000
Graham Cubbin	91,743	–	8,257	100,000
Kim Anderson	77,982	–	7,018	85,000
Executive Directors				
Michael Connaghan	834,225	300,000	15,775	1,150,000
Peter Cullinane	622,829	–	4,679	627,508
Director remuneration for the consolidated entity and parent entity	**1,923,139**	**300,000**	**62,401**	**2,285,540**
Other KMP				
Chris Savage	584,225	150,000	15,775	750,000
Lukas Aviani	314,225	100,000	15,775	430,000
Total non-Director KMP remuneration	**898,450**	**250,000**	**31,550**	**1,180,000**
Executives of the consolidated entity				
Neil Lawrence	734,225	60,000	15,775	810,000
Tom Moult	534,225	–	15,775	550,000
Andrew Baxter	434,225	–	15,775	450,000
Total remuneration for executives of the consolidated entity	**1,702,675**	**60,000**	**47,325**	**1,810,000**
Grand Total	**4,524,264**	**610,000**	**141,276**	**5,275,540**

(a) There were no additional post-employment benefits provided during the year ended 31 December 2011.

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 $204,294, representing a total cost to the Company of $1,359,294;
- Chris Savage $127,053, representing a total cost to the Company of $877,053; and
- Lukas Aviani $52,165 representing a total cost to the Company of $482,165.

REMUNERATION REPORT (CONTINUED)

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

Details of remuneration provided to Directors, senior executives and executives of the consolidated entity and the Company for the 2010 year are as follows:

TABLE 2: KMP AND EXECUTIVE REMUNERATION FOR THE YEAR ENDED 31 DECEMBER 2010

	Short-term Employment Benefits		Post - Employment Benefits (a)	
	Cash Salary and Fees $	Cash Profit Sharing and Other Bonuses $	Superannuation $	Total $
Non-executive Directors				
Robert Mactier	159,364	–	25,636	185,000
Russell Tate (resigned 10 May 2011)	211,307	–	6,193	217,500
Anne Keating (resigned 10 February 2011)	68,807	–	6,193	75,000
Paul Richardson	–	–	–	–
Ian Tsicalas	80,275	–	7,225	87,500
Graham Cubbin	82,569	–	7,431	90,000
Miles Young (resigned 11 February 2010)	–	–	–	–
Kim Anderson (appointed 10 November 2010)	10,997	–	990	11,987
Executive Directors				
Michael Connaghan	685,170	87,500	14,830	787,500
Peter Cullinane (appointed 3 June 2010)	44,989	–	4,049	49,038
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**	**92,732**	**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.

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 2011 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.

Subject to the specific authorities reserved to the Board under the Board Charter, and to the authorities delegated to the Board Committees, the Board has delegated to the Chief Executive Officer responsibility for the management and operation of the Group. The Chief Executive Officer is responsible for the day-to-day operations, financial performance and administration of the Group within the powers authorised to him from time to time by the Board. The Chief Executive Officer may make further delegation within the delegations specified by the Board and is accountable to the Board for the exercise of these delegated powers.

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 31 to 48.

A performance assessment for senior executives last took place in December 2011.

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, one Non-executive non-independent Director and two executive Directors. Directors' profiles – with details of Directors' skills, experience and special expertise – are on pages 24 and 25 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 Board seeks to have 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
Michael Connaghan	Chief Executive Officer and Executive Director	NO	Chief Executive Officer	2008
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	Executive Director	NO	Chief Executive Officer of a subsidiary of STW Group	2010
Kim Anderson	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.

Commitment

The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 31 December 2011, and the number of meetings attended by each Director, is disclosed on page 27.

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 24 and 25 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 2011.

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)
Kim Anderson (appointed 10 February 2011)
Graham Cubbin (appointed 10 May 2011).

Details of Directors' attendance at meetings throughout the period are set out in the Directors' Report on page 27.

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 27.

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

Codes 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:

- announces its half-yearly results to the ASX;
- announces its full-year results to the ASX; and
- 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 2011 are set out below:

Gender diversity	31 Dec 11 Male	31 Dec 10 Male	31 Dec 11 Female	31 Dec 10 Female
Total employees	46%	51%	54%	49%
Senior managers	62%	64%	38%	36%
Board	86%	90%	14%	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 24 and 25 in this Annual Report.

The Committee meets at least three times per year, and during 2011 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 Excutive 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)
Kim Anderson
Graham Cubbin.

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 31 to 48.

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.

The Company'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 the Company's shares.

It is the Company policy to prohibit margin lending over the Company's 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 and Non-executive Directors, are contained in the Remuneration Report on pages 31 to 48.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 11

		Consolidated Entity	
	Notes	2011 $'000	2010 $'000
Continuing operations			
Revenue	4(a)	312,969	309,985
Other income	4(b)	3,395	4,314
Share of net profits of jointly controlled entities accounted for using the equity method	4(c)	10,144	9,049
		326,508	**323,348**
Employee benefits expense		(190,714)	(187,470)
Occupancy costs		(16,088)	(15,679)
Depreciation expense	5(a)	(5,807)	(5,045)
Amortisation expense	5(a)	(738)	(826)
Travel, training and other personal costs		(9,710)	(8,684)
Research, new business and other commercial costs		(5,972)	(6,229)
Office and administration costs		(13,145)	(12,463)
Compliance, audit and listing costs		(7,529)	(9,652)
Finance costs	5(b)	(11,131)	(11,741)
Profit before income tax		**65,674**	**65,559**
Income tax expense	6	(14,911)	(16,113)
Net profit		**50,763**	**49,446**
Net profit attributable to:			
- Non-controlling interests		9,874	10,783
- Members of the parent entity		40,889	38,663
		Cents	**Cents**
Earnings per share:			
Basic earnings per share	7	**11.44**	**10.81**
Diluted earnings per share	7	**11.42**	**10.81**

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

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 11

	Consolidated Entity	
	2011 $'000	2010 $'000
Net profit	**50,763**	**49,446**
Other comprehensive income		
Exchange gain/(loss) arising on translation of foreign operations	448	(4,176)
(Loss)/gain on cash flow hedges taken to equity	(1,457)	1,641
Income tax benefit/(expense) relating to components of other comprehensive income	437	(492)
Other comprehensive income (net of tax)	(572)	(3,027)
Total comprehensive income attributable to:		
Total comprehensive income	**50,191**	**46,419**
- Non-controlling interests	10,158	10,152
- Members of the parent entity	40,033	36,267

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

BALANCE SHEET AS AT 31 DECEMBER 11

	Notes	Consolidated Entity 2011 $'000	Consolidated Entity 2010 $'000
Current assets			
Cash and cash equivalents	9	27,141	43,769
Trade and other receivables	10	163,087	153,656
Current tax assets	6	–	1,123
Other current assets	11	3,354	2,143
Total current assets		**193,582**	**200,691**
Non-current assets			
Other receivables	12	12,556	12,853
Investments accounted for using the equity method	13	97,033	100,326
Other financial assets	14	395	228
Plant and equipment	15	20,826	19,906
Deferred tax assets	16	9,990	8,851
Intangible assets	17	409,912	382,847
Other non-current assets	18	441	2,687
Total non-current assets		**551,153**	**527,698**
Total assets		**744,735**	**728,389**
Current liabilities			
Trade and other payables	19	180,940	216,066
Borrowings	20	2,740	3,463
Current tax liabilities	6	12,437	17,492
Provisions	21	6,066	6,586
Total current liabilities		**202,183**	**243,607**
Non-current liabilities			
Other payables	22	28,173	17,423
Borrowings	23	109,133	73,800
Deferred tax liabilities	24	6,498	6,718
Provisions	25	2,444	2,402
Total non-current liabilities		**146,248**	**100,343**
Total liabilities		**348,431**	**343,950**
Net assets		**396,304**	**384,439**
Equity			
Issued capital	26	274,895	276,186
Reserves	27	9,269	9,378
Retained earnings	28	76,801	62,174
Equity attributable to members of the parent entity		**360,965**	**347,738**
Non-controlling interests		35,339	36,701
Total equity		**396,304**	**384,439**

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 11

	Notes	Attributable to Equity Holders of the Consolidated Entity								
	Notes	Issued Capital $'000	Equity Settled Share-based Payment Reserve* $'000	Brand Name Revaluation Reserve* $'000	Interest Rate Hedge Reserve* $'000	Foreign Currency Translation Reserve* $'000	Retained Earnings $'000	Total $'000	Non-controlling Interests $'000	Total Equity $'000
Consolidated Entity										
At 1 January 2010		**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 and buyout of minority interests		–	–	–	–	–	–	–	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**
Net profit		–	–	–	–	–	40,889	40,889	9,874	50,763
Other comprehensive income		–	–	–	(1,020)	164	–	(856)	284	(572)
Total comprehensive income		**–**	**–**	**–**	**(1,020)**	**164**	**40,889**	**40,033**	**10,158**	**50,191**
Non-controlling interests on acquisition of controlled entities and buyout of minority interests		–	–	–	–	–	–	–	(2,651)	(2,651)
Share buy-backs	26	(1,291)	–	–	–	–	–	(1,291)	–	(1,291)
Cost of share-based payments	27	–	747	–	–	–	–	747	–	747
Equity dividends provided for or paid	8	–	–	–	–	–	(26,262)	(26,262)	(8,869)	(35,131)
At 31 December 2011		**274,895**	**1,272**	**16,275**	**(1,206)**	**(7,072)**	**76,801**	**360,965**	**35,339**	**396,304**

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 11

	Notes	Consolidated Entity 2011 $'000	Consolidated Entity 2010 $'000
Cash flows from operating activities			
Receipts from customers		957,129	946,849
Payments to suppliers and employees		(901,344)	(851,311)
Net cash flows from operations		**55,785**	**95,538**
Interest received		1,587	2,701
Interest and other costs of finance paid		(9,818)	(9,151)
Dividends and trust distributions received from jointly controlled entities		5,433	6,880
Income taxes paid		(20,394)	(6,324)
Net cash flows from operating activities	9	**32,593**	**89,644**
Cash flows from investing activities			
Payments for purchase of controlled entities, net of cash acquired	33(c)	(2,462)	(765)
Payments for purchase of jointly controlled entities		(693)	(3,912)
Payments for purchase of plant and equipment		(6,546)	(5,254)
Proceeds from sale of controlled and jointly controlled entities		–	510
Earnout payments on controlled entities		(41,068)	(17,065)
Loan from/(to) jointly controlled entities		8,328	(75)
Net cash flows used in investing activities		**(42,441)**	**(26,561)**
Cash flows from financing activities			
Proceeds from borrowings		228,624	265,550
Repayments of borrowings		(194,000)	(299,452)
Repayments of finance lease liabilities		(13)	(2,414)
Payments for share buy-backs	26	(1,291)	–
Equity holder dividends paid	8	(26,262)	(15,626)
Dividends paid to non-controlling interests		(13,869)	(9,104)
Net cash flows used in financing activities		**(6,811)**	**(61,046)**
Net (decrease)/increase in cash held		**(16,659)**	**2,037**
Effects of exchange rate changes on cash and cash equivalents		31	(302)
Cash at the beginning of the year		43,769	42,034
Cash at the end of the year	9	**27,141**	**43,769**

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

CONTENTS – NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 11

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 11

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report of STW Communications Group Limited for the year ended 31 December 2011 was authorised for issue in accordance with a resolution of the Directors, dated 30 March 2012.

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 (the Group does 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 10 Consolidated Financial Statements	1 January 2013	31 December 2013
AASB 11 Joint Arrangements	1 January 2013	31 December 2013
AASB 12 Disclosure of Interests in Other Entities	1 January 2013	31 December 2013
AASB 128 Investments in Associates and Joint Ventures (2011)	1 January 2013	31 December 2013
AASB 13 Fair Value Measurement and related AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13	1 January 2013	31 December 2013
AASB 119 Employee Benefits (2011), AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (2011)	1 January 2013	31 December 2013
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 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements	1 July 2013	31 December 2013
AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements standards	1 January 2013	31 December 2013
AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income	1 July 2012	31 December 2012

*The IASB has amended IFRS 9 to defer the mandatory effective date to annual periods beginning on or after 1 January 2015. It is expected that the AASB will issue similar amendments shortly.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 11 (CONTINUED)

(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 2011 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(i)).

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)) are disclosed as either a current or non-currrent liability titled 'Deferred cash settlement for controlled and jointly controlled entities acquired' as shown in Notes 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 profit or loss and any reversals are credited to the profit or loss.

The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the profit or loss, 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 profit or loss, 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 98/100) 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 profit or loss 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 profit or loss 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 profit or loss 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 profit or loss, 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 11 (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.

(ii) 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 profit or loss 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 profit or loss 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 remeasured to fair value with changes in fair value recognised in profit or loss.

Business combinations that took place prior to 1 July 2009 were accounted for in accordance with the previous version of AASB 3.

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 recognised assets and liabilities are recognised in the profit or 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 profit or loss.

(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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 11 (CONTINUED)

(M) INVESTMENTS AND OTHER FINANCIAL ASSETS (CONTINUED)

(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.

(ii) 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 profit or loss. 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 profit or loss 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.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

(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 profit or loss 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 profit or loss. 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 or 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 profit or loss 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 profit or loss 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 11 (CONTINUED)

(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 profit or loss 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.

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 31 to 48.

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 profit or loss 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 2011, the consolidated entity's current liabilities are greater than current assets by $8,601,000 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 31 to 48.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 11 (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 segments 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

Sales between segments are carried out at arm's length and 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 2011 and 31 December 2010 which has been restated to reflect the current business segment presentation:

	Advertising, Production and Media		Diversified Communications		Holding Company and Unallocated		Consolidated Entity	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**	**2011 $'000**	**2010 $'000**	**2011 $'000**	**2010 $'000**
Revenue from services rendered	168,738	174,251	141,832	131,585	164	1,400	310,734	307,236
Share of net profits of jointly controlled entities	6,380	5,744	3,764	3,305	–	–	10,144	9,049
Other income	2,233	3,088	516	396	646	830	3,395	4,314
Segment revenue	**177,351**	**183,083**	**146,112**	**135,286**	**810**	**2,230**	**324,273**	**320,599**
Segment result	**54,110**	**55,378**	**38,834**	**37,711**	**(11,829)**	**(12,667)**	**81,115**	**80,422**
Depreciation and amortisation expense							(6,545)	(5,871)
Net interest							(8,896)	(8,992)
Profit before income tax							**65,674**	**65,559**
Income tax expense							(14,911)	(16,113)
Net profit							**50,763**	**49,446**
Net profit attributable to:								
- Non-controlling interests							9,874	10,783
- Members of the parent entity							40,889	38,663

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 11 (CONTINUED)

NOTE 4. REVENUE

		Consolidated Entity	
	Notes	2011 $'000	2010 $'000
(a) Revenue			
Services rendered		310,734	307,236
Interest income			
Jointly controlled entities		112	324
Other entities		2,123	2,425
Total interest income		2,235	2,749
Total revenue		**312,969**	**309,985**
(b) Other income			
Dividends from listed investments		15	19
Other revenue		3,380	4,295
Total other income		**3,395**	**4,314**
(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)	10,144	9,049

NOTE 5. EXPENSES

	Consolidated Entity 2011 $'000	Consolidated Entity 2010 $'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	5,807	5,045
Total depreciation of non-current assets	5,807	5,045
Amortisation of non-current assets:		
Intangible assets	738	826
Total amortisation of non-current assets	738	826
Total depreciation and amortisation expense	**6,545**	**5,871**
(b) Finance costs		
Finance costs:		
Interest expense – deferred consideration payable	1,312	2,590
Interest expense – other parties	9,819	8,977
Finance lease charges	–	174
Total finance costs	**11,131**	**11,741**
(c) Other expenses/(gains)		
Gain on fair value adjustment on non-current liability (deferred cash settlement)	(610)	–
Acquisition related costs	400	–
Loss on disposal of plant and equipment	112	374
Gain on acquisition of non-current assets	–	(838)
Foreign exchange (gain)/loss	221	(52)
Superannuation contributions	9,910	9,776
(d) Operating lease rental		
Minimum lease payments	14,312	14,648

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 11 (CONTINUED)

NOTE 6. INCOME TAX	Consolidated Entity	
	2011 $'000	2010 $'000
(a) Income tax expense		
Current tax	16,104	17,119
Deferred tax	(922)	(1,115)
Adjustments for current tax of prior periods	(271)	109
Income tax expense reported in income statement	**14,911**	**16,113**
(b) Current tax assets and liabilities included in the financial statements:		
Current tax assets	–	1,123
Current tax liabilities	(12,437)	(17,492)
	(12,437)	**(16,369)**
(c) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	**65,674**	**65,559**
Tax at the Australian tax rate of 30% (2010: 30%)	19,702	19,668
Adjustments for current tax of prior years	(270)	109
Tax adjustments resulting from equity accounting	(3,043)	(2,715)
Other items allowable for income tax purposes	(1,610)	(1,114)
Amortisation of intangible assets	132	165
Income tax expense reported in income statement	**14,911**	**16,113**
(d) Tax (benefit)/expense relating to components of other comprehensive income		
Cash flow hedges (Note 27)	(437)	492

(e) Tax losses

The Group has tax losses arising in Australia of $3,467,000 on revenue account and $6,109,719 on capital account (2010: $4,003,000 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 2011, there is no recognised or unrecognised deferred income tax liability (2010: $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	
	2011 $'000	**2010 $'000**
Net profit attributable to ordinary equity holders of the Company from continuing operations for basic earnings per share	**40,889**	**38,663**
Effect of dilution:		
Dilutive adjustments to net profit	–	–
Net profit attributable to ordinary equity holders of the Company for diluted earnings per share	**40,889**	**38,663**
	Number	**Number**
Weighted average number of ordinary shares for basic earnings per share	357,432,194	357,591,782
Impact of ESP shares where earning per share growth performance targets have been met	467,500	–
Weighted average number of ordinary shares for diluted earnings per share	**357,899,694**	**357,591,782**
	Cents	**Cents**
Earnings per share for profit from continuing operations attributable to ordinary equity holders of the Company		
Basic earnings per share	11.44	10.81
Diluted earnings per share	11.42	10.81

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 11 (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	
	2011 $'000	2010 $'000
Declared and paid during the year		
Dividends on ordinary shares:		
Final franked dividend for 2010: 4.2 cents per share (2009: 2.0 cents per share)	15,301	7,151
Interim franked dividend for 2011: 3.0 cents per share (2010: 2.3 cents per share)	10,929	8,226
Dividends paid pursuant to the ESP	32	249
	26,262	**15,626**
In addition to the above dividends, since the end of the year the Directors have recommended the payment of a final dividend of 5.0 cents (2010: 4.2 cents) per fully paid ordinary share, fully franked at 30%. The aggregate amount of the proposed final dividend payable 20 April 2012 (2011: 21 April 2011), out of retained earnings, but not recognised as a liability, is:	**18,140**	**15,022**
Franking credit balance The franked portions of dividends recommended after 31 December 2011 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 2012.		
Franking credits available for subsequent years based upon a tax rate of 30%	**19,345**	**20,270**
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; and – 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	**7,774**	**6,438**

NOTE 9. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

		Consolidated Entity	
	Notes	2011 $'000	2010 $'000
Cash on hand		80	34
Cash at bank		23,781	41,350
Cash on deposit		3,280	2,385
		27,141	**43,769**
Reconciliation of profit after income tax to net cash flows from operating activities			
Profit for the year		50,763	49,446
Share of jointly controlled entities' net profits, net of dividends and trust distributions received		(4,726)	(2,188)
Depreciation and amortisation expense		6,545	5,871
ESP expense non-cash		747	611
Interest expense on deferred cash settlement		1,312	2,590
Loss on disposal of non-current assets	5(c)	112	374
Gain on acquisition of non-current assets		–	(838)
Gain on fair value adjustment to non-current liability		(610)	–
Changes in operating assets and liabilities, net of effects of purchase and disposal of controlled entities during the financial year:			
Increase in trade and other receivables		(7,997)	(29,978)
Decrease/(increase) in other non-current receivables		2,246	(1,906)
Increase in deferred tax assets		(1,094)	(446)
(Decrease)/increase in trade and other payables		(8,479)	57,484
(Decrease)/increase in current income tax payable		(3,738)	12,763
Decrease in provisions		(3,184)	(1,230)
Increase/(decrease) in other liabilities		696	(2,909)
Net cash flows from operating activities		**32,593**	**89,644**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 11 (CONTINUED)

NOTE 10. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

	Consolidated Entity	
	2011 $'000	2010 $'000
Trade receivables	157,834	150,784
Provision for doubtful receivables	(1,568)	(625)
	156,266	150,159
Other receivables	6,821	3,497
	163,087	**153,656**

(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 2011, current trade receivables of the Group with a nominal value of $1,568,000 (2010: $625,000) were impaired. All impaired trade receivables are overs 60 days old. The individually impaired receivables mainly relate to customers, which are in an unexpectedly difficult economic situation.

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

	Consolidated Entity	
	2011 $'000	2010 $'000
Balance at the beginning of the year	625	1,195
Provision for doubtful receivables recognised during the year	1,195	177
Receivables written off during the year as uncollectible	(252)	(747)
Balance at the end of the year	**1,568**	**625**

The creation and release of the provision for doubtful receivables has been included in research, new business and other commercial costs 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 at 31 December 2011, trade receivables greater than 60 days of $23,498,000 (2010: $12,701,000) 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	
	2011 $'000	**2010 $'000**
1 - 30 days	90,698	98,643
31 - 60 days	42,070	38,815
Greater than 60 days	23,498	12,701
	156,266	**150,159**

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.

(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 consolidated entity's trade receivables.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 11 (CONTINUED)

NOTE 11. CURRENT ASSETS - OTHER CURRENT ASSETS

	Consolidated Entity	
	2011 $'000	2010 $'000
Prepayments	3,354	2,143
	3,354	**2,143**

NOTE 12. NON-CURRENT ASSETS - OTHER RECEIVABLES

	Consolidated Entity	
	2011 $'000	2010 $'000
Amounts receivable from jointly controlled entities	12,556	14,215
Provision for doubtful receivables	–	(1,362)
	12,556	**12,853**

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

	Consolidated Entity	
	2011 $'000	2010 $'000
Balance at the beginning of the year	1,362	1,121
Provision for impairment recognised during the year	–	241
Receivables written off during the year as uncollectible	–	–
Unused amount reversed	(1,362)	–
Balance at the end of the year	**–**	**1,362**

(A) RELATED PARTY RECEIVABLES

For terms and conditions relating to related party receivables, 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 foreign exchange risk, interest rate risk and credit risk is provided in Note 29.

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

	Consolidated Entity 2011 $'000	Consolidated Entity 2010 $'000
Investments in jointly controlled entities	**97,033**	**100,326**

Name	Principal Activity	Ownership Interest 2011	Ownership Interest 2010	Country of Incorporation/ Formation
Bohemia Group Pty Limited	Media planning	37.5%	–	Australia
Campaigns and Communications Group Pty Limited	Campaign management	20%	20%	Australia
Catalyst Advertising Pty Limited	Advertising	50%	50%	Australia
Enigma Communication Pty Limited	Advertising	20%	–	Australia
Evocatif Pty Limited	Communications	49%	49%	Australia
Ewa Heidelberg Pty Limited (formerly i2i Communications Pty Limited)	Dormant	49%	49%	Australia
Feedback ASAP Pty Limited	Mystery shopping	20.4%	–	Australia
Houston Group Pty Limited	Branding and design	40%	–	Australia
Ikon3 LLC	Media planning	20%	–	United States
Ikon Perth Pty Limited	Media planning	45%	–	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 and IPTV technology development	49%	49%	Australia
New Dialogue Pty Limited (i)	Media planning	–	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 (i)	Consulting	–	25%	Australia
TaguchiMarketing Pty Limited	E-mail marketing	20%	20%	Australia
TCO Pty Limited	Branded content production	40%	40%	Australia
The Origin Agency Pty Limited	Public relations	49%	–	Australia
The Corporate Film Company Pty Limited (i)	Production	–	50%	Australia
White Digital Pty Limited	Digital marketing	49%	49%	Australia

(i) The Company purchased additional shares 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. No gain or loss was recognised on acquisition of the entity.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 11 (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 2011 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	
	2011 $'000	2010 $'000
Share of jointly controlled entities' balance sheet items		
Current assets	94,763	98,991
Non-current assets	24,100	18,312
Total assets	**118,863**	**117,303**
Current liabilities	73,278	80,050
Non-current liabilities	13,825	11,047
Total liabilities	**87,103**	**91,097**
Net assets	**31,760**	**26,206**
Share of jointly controlled entities' revenue and profits		
Revenue	67,864	63,150
Profits before income tax	14,214	12,666
Income tax expense	(4,070)	(3,617)
Profits after income tax	**10,144**	**9,049**

(D) DIVIDENDS AND TRUST DISTRIBUTIONS RECEIVED

During the year, the consolidated entity received dividends and trust distributions of $5,418,000 (2010: $6,861,000) 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

Other financial assets are available-for-sale financial assets which include the following classes of financial assets:

	Consolidated Entity	
	2011 $'000	2010 $'000
Listed securities		
Shares in listed entities – at fair value	213	228
Unlisted securities		
Shares in other entities - at fair value	182	–
	395	**228**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 11 (CONTINUED)

NOTE 15. NON-CURRENT ASSETS - PLANT AND EQUIPMENT

	Consolidated Entity	
Plant and equipment	**2011 $'000**	**2010 $'000**
At cost	34,252	30,469
Accumulated depreciation	(13,426)	(10,563)
Total plant and equipment	**20,826**	**19,906**

RECONCILIATIONS

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

At 1 January 2010	**Plant and Equipment $'000**	**Total $'000**
At cost	27,210	27,210
Accumulated depreciation and amortisation	(6,868)	(6,868)
Net carrying amount	**20,342**	**20,342**
Year ended 31 December 2010		
Balance at the beginning of the year	20,342	20,342
Additions	5,254	5,254
Acquisition of subsidiary (Refer to Note 33)	5	5
Disposals	(650)	(650)
Depreciation and amortisation expense	(5,045)	(5,045)
Balance at the end of the year	**19,906**	**19,906**
At 31 December 2010		
At cost	30,469	30,469
Accumulated depreciation and amortisation	(10,563)	(10,563)
Net carrying amount	**19,906**	**19,906**

Year ended 31 December 2011	Plant and Equipment $'000	Total $'000
Balance at the beginning of the year	19,906	19,906
Additions	6,544	6,544
Acquisition of subsidiary (Refer to Note 33)	455	455
Disposals	(150)	(150)
Disposal of controlled entity	(122)	(122)
Depreciation and amortisation expense	(5,807)	(5,807)
Balance at the end of the year	**20,826**	**20,826**

At 31 December 2011		
At cost	34,252	34,252
Accumulated depreciation and amortisation	(13,426)	(13,426)
Net carrying amount	**20,826**	**20,826**

(A) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 11 (CONTINUED)

NOTE 16. NON-CURRENT ASSETS - DEFERRED TAX ASSETS

	Consolidated Entity	
	2011 $'000	2010 $'000
Provisions	2,170	2,177
Doubtful debts	485	602
Accruals	1,836	1,012
Deferred interest rate hedge	517	80
Tax losses carried forward	1,040	1,201
Other	3,942	3,779
Gross deferred tax assets	**9,990**	**8,851**
Movements		
Opening balance	8,851	8,406
Credited to the income statement	702	937
Credited/(charged) to equity	437	(492)
Closing balance	**9,990**	**8,851**

Movements - consolidated	Provisions $'000	Doubtful debts $'000	Accruals $'000	Deferred interest rate hedge $'000	Tax losses $'000	Other $'000	Total $'000
At 1 January 2009	**2,127**	**382**	**1,992**	**572**	**771**	**2,562**	**8,406**
Charged/(credited) to the income statement	50	220	(980)	-	430	1,217	937
Credited to equity	-	-	-	(492)	-	-	(492)
At 31 December 2010	**2,177**	**602**	**1,012**	**80**	**1,201**	**3,779**	**8,851**
Charged/(credited) to the income statement	(7)	(117)	824	-	(161)	163	702
Charged to equity	-	-	-	437	-	-	437
At 31 December 2011	**2,170**	**485**	**1,836**	**517**	**1,040**	**3,942**	**9,990**

NOTE 17. NON-CURRENT ASSETS – INTANGIBLE ASSETS

	Consolidated Entity	
	2011 $'000	2010 $'000
Goodwill	347,700	321,898
Brand name	57,027	57,027
Intellectual property	5,185	3,922
Total intangible assets	**409,912**	**382,847**

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:

At 1 January 2010	Goodwill $'000	Brand name $'000	Intellectual property $'000	Total $'000
Gross carrying amount – at cost	327,877	57,027	2,478	387,382
Accumulated impairment	(3,267)	-	(2,478)	(5,745)
Net carrying amount	**324,610**	**57,027**	-	**381,637**
Year ended 31 December 2010				
Balance at the beginning of the year	324,610	57,027	-	381,637
Acquisition of subsidiary (Refer to Note 33)	288	-	3,007	3,295
Acquisition purchase price adjustment	(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				
Gross carrying amount – at cost	325,165	57,027	4,748	386,940
Accumulated amortisation and impairment	(3,267)	-	(826)	(4,093)
Net carrying amount	**321,898**	**57,027**	**3,922**	**382,847**

Year ended 31 December 2011	Goodwill $'000	Brand name $'000	Intellectual property $'000	Total $'000
Balance at the beginning of the year	321,898	57,027	3,922	382,847
Additions	11,062	–	2,071	13,133
Acquisition of subsidiary (Refer to Note 33)	14,334	–	–	14,334
Disposals	–	–	(70)	(70)
Net exchange differences on translation of financial reports	406	–	–	406
Impairment and amortisation expense	–	–	(738)	(738)
Balance at the end of the year	**347,700**	**57,027**	**5,185**	**409,912**
At 31 December 2011				
Gross carrying amount – at cost	350,967	57,027	6,668	414,662
Accumulated amortisation and impairment	(3,267)	–	(1,483)	(4,750)
Net book value	**347,700**	**57,027**	**5,185**	**409,912**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 11 (CONTINUED)

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

(A) AMORTISATION CHARGE

The amortisation charge of $738,000 (2010: $826,000) 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 years ended 31 December 2011 or 31 December 2010.

(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 a 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 ended 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:

	2011 $'000	2010 $'000
Mass communications	192,257	188,568
Media and digital asset management	82,172	64,069
Brand development and management	87,019	84,060
Specialist communications	48,464	46,150
Total intangible assets	**409,912**	**382,847**

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

In performing the value-in-use calculations for each CGU, a discounted cash flow methodology has been utilised which necessarily involves making numerous estimates and assumptions regarding revenue growth, appropriate discount rates and working capital requirements. These estimates will likely differ from future actual results of operations and cash flows, and it is possible that these differences could be material.

The Group has applied the following assumptions to the value-in-use calculations:

- in performing the value-in-use calculations for each CGU, pre-tax discount rates have been applied to discount the forecast future attributable pre-tax cash flows. The rate used to discount the forecast future attributable pre-tax cash flows is 15.5% (2010:15.9%);
- the growth rate used to extrapolate cash flows beyond the budget period is 3.0% (2010: 3.0%); and
- the terminal value of 3% was used for cash flow from year 6 onwards for all CGUs.

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.

If a growth rate and terminal rate of 2.00% (2010: 0.05%) was consistently applied across all CGUs, the recoverable amount of the mass communications unit would fall below its carrying value.

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 pre-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 16.6% (2010: 19.1%) (pre tax) for the recoverable amount of the mass communications unit valuation to fall below its carrying value. 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	
	2011 $'000	2010 $'000
Prepayments	441	529
Other non-current assets	–	2,158
	441	**2,687**

NOTE 19. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	Consolidated Entity	
	2011 $'000	2010 $'000
Trade payables	43,809	49,485
Interest rate hedge liabilities - (Refer to Note 19(d))	1,723	266
Sundry and other payables	114,169	117,316
Amounts payable to other related parties	686	–
Deferred cash settlement for controlled and jointly controlled entities acquired	2,605	28,560
Deferred income	17,948	20,439
	180,940	**216,066**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 11 (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 2011 was as follows:

	Consolidated Entity	
	2011 $'000	**2010 $'000**
Total mark to market liability	1,723	266

The Company had entered into an interest rate cap of $25 million that expired on 14 July 2011 and an interest rate swap of $10 million that expired on 11 July 2011.

During the year, the Company entered into an interest rate swap of $30 million that matures on 14 January 2014 and an interest rate swap of $20 million that matures on 2 January 2014.

(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 4.9% (2010: 5.5%) per annum. 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 5.48% and 5.49% (2010: 7.67% and 7.7%) per annum.

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 interst rate hedge reserve, to the extent that the hedge is effective. It is reclassified into the 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	
Secured – at amortised cost	**Notes**	**2011 $'000**	**2010 $'000**
Bank loan		2,740	3,450
Finance lease liability	23	–	13
		2,740	**3,463**

(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	
	2011 $'000	**2010 $'000**
Employee benefits	6,066	6,586

NOTE 22. NON-CURRENT LIABILITIES - OTHER PAYABLES

	Consolidated Entity	
	2011 $'000	**2010 $'000**
Deferred cash settlement for controlled and jointly controlled entities acquired	19,266	14,063
Sundry and other payables	1,006	96
Amounts payable to jointly controlled entities	7,901	3,264
	28,173	**17,423**

(A) RELATED PARTY PAYABLES

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

(B) SUNDRY AND OTHER PAYABLES

Sundry and other payables are not interest bearing.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 11 (CONTINUED)

NOTE 23. NON-CURRENT LIABILITIES - BORROWINGS

	Consolidated Entity	
Secured – at amortised cost	**2011 $'000**	**2010 $'000**
Non-current		
Bank loan	109,133	73,800
	109,133	**73,800**
Financing facilities available		
At reporting date, the following financing facilities had been negotiated and were available:		
Available at balance date		
Total facilities - bank loan	173,235	174,239
Total facilities - finance leases	–	13
Used at balance date		
Facilities used at balance date - bank loan	111,873	77,250
Facilities used at balance date - finance leases	–	13
Unused at balance date		
Facilities unused at balance date - bank loan	61,362	96,989
Facilities unused at balance date - finance leases	–	–

(A) SECURED LOANS

(i) Australian core banking facilities

The Company has access to a long-term bilateral bank facility provided by The Hongkong and Shanghai Banking Corporation Limited and Westpac Banking Corporation totalling $178,000,000 (2010: $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.

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

In July 2011, the Company entered into a new agreement with ANZ National Bank Limited for the amount of $3,235,000 (2010: $4,239,000), which is due for review in July 2012. 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.

The bank loan facilities are secured by:

- a first registered fixed and floating charge over the assets and undertakings of STW Communications Group Limited and certain of its wholly-owned subsidiaries;
- cross guarantee and indemnity between STW Communications Group Limited and certain of its wholly-owned subsidiaries; and
- standard shares and securities mortgage over all shares held by STW Communications Group Limited and certain of its wholly-owned subsidaries.

(B) FINANCE LEASE LIABILITIES

There were no finance leases taken out during 2011 (2010: 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 $7,391,000 (2010: $7,171,000) supporting property rental and other obligations.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 11 (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	
	2011 $'000	2010 $'000
Current assets		
Cash and cash equivalents	10,574	27,843
Trade and other receivables	104,732	42,582
Other current assets	6,389	5,130
Total current assets	**121,695**	**75,555**
Non-current assets		
Other receivables	24,409	20,440
Investments accounted for using the equity method	81,288	100,326
Other financial assets	246,234	221,739
Plant and equipment	16,113	14,331
Deferred tax assets	8,793	6,211
Intangible assets	174,090	173,469
Total non-current assets	**550,927**	**536,516**
Total assets	**672,622**	**612,071**

(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	
	2011 $'000	2010 $'000
Accrued income	32	–
Prepayments	9	236
Plant and equipment	56	81
Executive share plan	6,401	6,401
Gross deferred tax liability	**6,498**	**6,718**
Movements:		
Opening balance	6,718	6,896
Credited to the income statement	(220)	(178)
Closing balance	**6,498**	**6,718**

Movements - consolidated	Accrued income $'000	Prepayment $'000	Plant & equipment $'000	ESP $'000	Total $'000
At 1 January 2009	**212**	**121**	**162**	**6,401**	**6,896**
Charged/(credited) to the income statement	(212)	115	(81)	–	(178)
At 31 December 2010	**–**	**236**	**81**	**6,401**	**6,718**
Charged/(credited) to the income statement	32	(227)	(25)	–	(220)
At 31 December 2011	**32**	**9**	**56**	**6,401**	**6,498**

NOTE 25. NON-CURRENT LIABILITIES - PROVISIONS

	Consolidated Entity	
	2011 $'000	2010 $'000
Employee benefits	2,444	2,402

NOTE 26. ISSUED CAPITAL

	2011	2010	2011	2010
	Number of Shares	Number of Shares	$'000	$'000
Ordinary shares issued and fully paid - parent entity	362,798,351	364,310,964	296,144	297,435
Shares under the executive share plan	(6,652,333)	(6,652,333)	(21,249)	(21,249)
Total issued capital - consolidated	**356,146,018**	**357,658,631**	**274,895**	**276,186**

(A) MOVEMENTS IN ORDINARY SHARES ON ISSUE

	2011	2011	2010	2010
	Number of Shares	$'000	Number of Shares	$'000
At 1 January	**364,310,964**	297,435	364,310,964	297,435
Share buy-back	(1,512,613)	(1,291)	–	–
At 31 December for parent entity	**362,798,351**	**296,144**	**364,310,964**	**297,435**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 11 (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) SHARE BUY-BACK

During the year ended 31 December 2011, a total of 1,512,613 ordinary shares were repurchased by the Company on-market pursuant to its share buy-back program. These share purchases were undertaken at an average price of $0.85 per share. No share buy-backs occurred 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).

Movements in performance shares	2011	2011	2010	2010
	Number of Shares	$'000	Number of Shares	$'000
At 1 January for parent entity	6,652,333	21,249	6,752,333	21,335
Share allocated to executives	–	–	(100,000)	(86)
At 31 December for parent entity	**6,652,333**	**21,249**	**6,652,333**	**21,249**

(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 gross 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 the Company is monitored using the following measures:

- Gross debt to EBITDA ratio. Gross debt is calculated as total interest bearing liabilities, plus deferred cost of acquisition. EBITDA is defined as underlying statutory consolidated earnings before interest, tax, depreciation and amortisation and is adjusted for specific items of a non-recurring nature. The Company's target ratio is 1.5 - 2.0 times; and
- Gross debt to gross debt plus equity ratio. Equity is defined as equity attributable to members of the parent entity. The Company's target ratio is 25% - 35%.

The above target ratios are the Company's optimal target ratios; however, this is a long-term objective and the Group is currently working towards these optimal targets.

The gross debt to EBITDA and gross debt to gross debt plus equity ratios for the Group at 31 December 2011 and 31 December 2010 were as follows:

		Consolidated Entity	
	Target	2011 $'000	2010 $'000
Total borrowings		111,873	77,263
Add: deferred cash settlement for controlled and jointly controlled entities acquired		21,871	42,623
Gross debt		133,744	119,886
EBITDA		81,115	80,422
Equity		396,304	384,439
Gross debt to EBITDA ratio	1.5 - 2.0 times	1.65	1.49
Gross debt to gross debt plus equity ratio	25% - 35%	25.23%	23.77%

NOTE 27. RESERVES

	Consolidated Entity	
	2011 $'000	2010 $'000
Equity settled share-based payment reserve	1,272	525
Brand name revaluation reserve	16,275	16,275
Interest rate hedge reserve	(1,206)	(186)
Foreign currency translation reserve	(7,072)	(7,236)
Closing balance	**9,269**	**9,378**
Movements		
Equity settled share-based payment reserve		
Opening balance	525	–
Cost of share-based payments	747	611
Issue of executive share plan shares	–	(86)
Closing balance	**1,272**	**525**
Interest rate hedge reserve		
Opening balance	(186)	(1,335)
(Loss)/gain on cash flow hedges taken to equity	(1,457)	1,641
Deferred tax	437	(492)
Closing balance	**(1,206)**	**(186)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 11 (CONTINUED)

NOTE 27. RESERVES (CONTINUED)

	Consolidated Entity	
	2011 $'000	2010 $'000
Foreign currency translation reserve		
Opening balance	(7,236)	(3,691)
Exchange gain/(loss) arising on translation of foreign operations	164	(3,545)
Closing balance	**(7,072)**	**(7,236)**

NATURE AND PURPOSE OF RESERVES

(i) Equity settled share-based payment 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 entities 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.

(iii) Interest rate hedge reserve

The interest rate hedge 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	
	2011 $'000	2010 $'000
Opening balance	62,174	39,137
Net profit for the year	40,889	38,663
Dividends provided for or paid	(26,262)	(15,626)
Closing balance	**76,801**	**62,174**

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	
	2011 $'000	2010 $'000
Financial assets		
Cash and cash equivalents	27,141	43,769
Trade and other receivables	175,643	166,509
Other financial assets	213	228
	202,997	**210,506**
Financial liabilities		
Trade and other payables (excluding deferred cash settlement and derivatives)	185,519	190,600
Deferred cash settlement	21,871	42,623
Secured finance lease liability	–	13
Secured bank loan	111,873	77,250
Derivative financial instruments	1,723	266
	320,986	**310,752**

(A) MARKET RISK

Market risk is the risk that the fair value or future cash flows from a financial instrument will fluctuate because of changes in market factors. Market risk comprises (amongst other things): interest rate risk (due to fluctuations in interest rates) and foreign exchange risk (due to fluctuations in foreign exchange rates).

(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 exchange risk as exposure to this risk is considered to be minimal.

All borrowings are in the functional currency of the borrowing entity.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 11 (CONTINUED)

NOTE 29. FINANCIAL INSTRUMENTS (CONTINUED)

(A) MARKET RISK (CONTINUED)

The Group's exposure to foreign exchange risk at the reporting period was as follows:

	2011 ZAR	2010 ZAR	2011 EUR	2010 EUR	2011 USD	2010 USD
Trade receivables	–	–	90	–	638	347
Trade payables	(146)	–	(2)	–	(43)	(91)
	(146)	**–**	**88**	**–**	**595**	**256**

Sensitivity

Based on the financial instruments held at 31 December 2011, 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 $68,000 higher/lower, (2010: $26,000 higher/lower), mainly as a result of foreign exchange gains/(losses) on translation of foreign currency denominated receivables in the above table.

(ii) 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'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.

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 rate and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

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 2011, the interest rate hedges were marked to market and gave rise to a mark to market liability at that date of $1,723,000 (2010: $266,000 (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	2011 Weighted average interest rate % p.a.	2011 Balance $'000	2010 Weighted average interest rate % p.a	2010 Balance $'000
Bank loan	4.99%	111,873	5.5%	77,250
Interest rate swaps (notional principal amount)	5.49%	(50,000)	7.70%	(10,000)
Net exposure to cash flow interest rate risk		**61,873**		**67,250**

Interest rate swaps were 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 2011, 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 $433,000 lower/higher (2010: change of 100 bps: $471,000) mainly as a result of higher/lower interest expense on borrowings. Equity would have been $433,000 lower/higher (2010: $471,000 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. A relatively small number of clients contribute to a significant percentage of the Group's consolidated revenue. For certain customers, the Group purchases credit insurance to protect itself against collection risks.

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. For trade and other receivables, the Group does not hold any credit derivatives or collateral to offset its credit exposure. Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

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 to meet obligations when due 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 11 (CONTINUED)

NOTE 29. FINANCIAL INSTRUMENTS (CONTINUED)

(C) LIQUIDITY RISK (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						
Contractual maturities of financial liabilities As at 31 December 2011	**≤6 Months $'000**	**6-12 Months $'000**	**1-2 Years $'000**	**2-5 Years $'000**	**Over 5 Years $'000**	**Total contractual cash flows $'000**	**Carrying amount $'000**
Non-derivatives							
Trade and other payables (excluding deferred cash settlement below)	176,612	–	8,483	–	–	185,095	185,519
Deferred cash settlement	229	1,231	8,661	12,315	2,908	25,344	21,871
Secured bank loan	–	2,740	–	109,133	–	111,873	111,873
	176,841	**3,971**	**17,144**	**121,448**	**2,908**	**322,312**	**319,263**
Derivatives							
Net settled (interest rate swaps)	1,723	–	–	–	–	1,723	1,723

	Maturity						
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**	**Total contractual cash flows $'000**	**Carrying amount $'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

(D) 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 2011 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 2011:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 11 (CONTINUED)

NOTE 29. FINANCIAL INSTRUMENTS (CONTINUED)

(D) FAIR VALUE MEASUREMENTS (CONTINUED)

As at 31 December 2011	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Consolidated entity				
Assets - shares in listed entities	213	–	–	213
Assets - shares in unlisted entities	–	–	182	182
Liabilities - derivatives used for hedging	–	(1,723)	–	(1,723)
Total assets/(liabilities)	213	(1,723)	182	(1,328)

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.

(E) 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's target debt to equity ratio is 25% - 35%. This is achieved by 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 2011, 6,652,333 (2010: 6,652,333) 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 exercisable	Plan	Fair Value Price	Balance at start of the year	Granted during 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	Number
Consolidated - 2011									
January 2009	1-Mar-12	Base Plan	$0.55	2,495,000	–	(2,027,500)	–	467,500	467,500
February 2010	1-Mar-13	Base Plan	$0.69	3,340,000	–	(120,000)	–	3,220,000	–
February 2010	1-Mar-13	Overperformance Plan	$0.84	626,250	–	(22,500)	–	603,750	–
February 2011	1-Mar-14	Base Plan	$1.10	–	1,170,000	(40,000)	–	1,130,000	–
February 2011	1-Mar-14	Overperformance Plan	$1.10	–	219,375	(7,500)	–	211,875	–
Total				6,461,250	1,389,375	(2,217,500)	–	5,633,125	467,500

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 $747,000 (2010: $611,000).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 11 (CONTINUED)

NOTE 31. KEY MANAGEMENT PERSONNEL ("KMP") DISCLOSURES

The following persons were the Directors of the Company during the year ended 31 December 2011:

Chairman
Robert Mactier

Deputy Chairman
Russell Tate (resigned 10 May 2011)

Chief Executive Officer and Executive Director
Michael Connaghan

Non-executive Directors
Anne Keating (resigned 10 February 2011)
Paul Richardson
Ian Tsicalas
Graham Cubbin
Peter Cullinane
Kim Anderson.

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	
	2011 $	2010 $
Short-term employee benefits	2,905,503	1,772,840
Post-employment benefits	52,005	54,660
Share-based benefits	383,512	232,426
Total for KMP	**3,341,020**	**2,059,926**

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
2011							
Director							
Mike Connaghan	1,068,750	178,125	–	–	1,246,875	–	1,246,875
Other KMP							
Chris Savage	984,375	178,125	–	(351,000)	811,500	99,000	712,500
Lukas Aviani	249,375	95,000	–	–	344,375	–	344,375

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 11 (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
2011				
Directors				
Robert Mactier	562,500	–	–	562,500
Russell Tate (resigned 10 May 2011)	1,528,726	–	(1,528,726)	–
Anne Keating (resigned 10 February 2011)	49,782	–	(49,782)	–
Paul Richardson	–	–	–	–
Ian Tsicalas	50,000	–	–	50,000
Graham Cubbin	100,000	–	–	100,000
Michael Connaghan	838,870	–	–	838,870
Peter Cullinane	4,500	–	30,000	34,500
Kim Anderson	–	–	–	–
Other KMP				
Chris Savage	121,875	–	–	121,875
Lukas Aviani	95,356	–	–	95,356

Russell Tate and Anne Keating resigned as Directors of the Company during the 2011 year.

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				
Robert Mactier	562,500	–	–	562,500
Russell Tate (resigned 10 May 2011)	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)	–	–	–	–
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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 11 (CONTINUED)

NOTE 32. RELATED PARTY DISCLOSURES

(A) ULTIMATE PARENT

The ultimate parent entity within the Group is STW Communications Group Limited.

(B) TRANSACTIONS WITH KMP

Refer to Note 31 for details of transactions with KMP.

(C) SUBSIDIARIES

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 2011 and 2010 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.

(D) 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 2011 was $112,000 (2010: $324,000). 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 2011

On 1 January 2011, STW Media Pty Limited ("STW Media") acquired an additional 51% of SBS Asia Pacific Pty Limited ("SBS") thereby increasing STW Media's ownership to 100%. SBS is a holding company which owns 100% of New Dialogue Pty Limited (trading as "Tongue"). Tongue is a full service advertising agency which operates out of Sydney.

On 1 January 2011, Singleton, Ogilvy & Mather (Holdings) Pty Limited ("SOM Holdings") acquired a 75% interest in Barton Deakin Pty Limited ("Barton Deakin"). STW Communications Group Limited holds a 66.67% share in SOM Holdings. Barton Deakin is a public relations and government relations agency which operates out of Sydney and Melbourne.

On 1 January 2011, STW Smollan Field Marketing Pty Limited ("Smollan") acquired 100% of Quality National Team Pty Limited ("QNT"). STW Media Services Pty Limited ("SMS") holds a 51% share in Smollan. QNT is a field marketing agency which operates out of Brisbane.

On 31 January 2011, The Brand Agency Unit Trust ("The Brand Agency") acquired 100% of Rolfe Limited ("Rolfe"). SMS holds an 84% share in The Brand Agency. Rolfe is a full service advertising agency which operates out of New Zealand.

On 1 July 2011, SMS disposed of 85% out of its 100% interest in Human Communications Pty Limited.

DURING THE YEAR ENDED 31 DECEMBER 2010

On 1 July 2010, STW Media Services Pty Limited ("SMS") acquired an additional 60% of Adcast Technology Unit Trust ("Adcast") thereby increasing SMS's ownership to 100%. Adcast provides automated marketing solutions and operates out of Melbourne.

		Consolidated Entity	
	Notes	2011 $'000	2010 $'000
Purchase consideration:			
Acquisition cost in prior periods and/or deferred cash settlement		2,897	869
Fair value – equity accounted interest		8,712	1,397
Cash paid in the current period	33(c)	3,350	1,515
Total purchase consideration		**14,959**	**3,781**
Fair value of net identifiable assets acquired	33(b)	625	3,493
Goodwill acquired		**14,334**	**288**

The acquired businesses contributed revenues of $8,759,000 and net profit of $681,000 to the Group for the period from 1 January 2011 to 31 December 2011. If control over these entities had all been achieved on 1 January 2011, the profit for the Group would have been $17,000 higher and revenue from continuing operations would have been $485,000 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 11 (CONTINUED)

NOTE 33. BUSINESS COMBINATIONS (CONTINUED)

(B) ASSETS AND LIABILITIES ACQUIRED

The assets and liabilities arising from the acquisitions were as follows:

	Consolidated Entity 2011 $'000	Consolidated Entity 2010 $'000
Fair value of net assets acquired		
Cash and cash equivalents	888	750
Trade and other receivables	2,758	66
Prepayments	65	1
Other current assets	346	–
Plant and equipment	455	5
Other non-current assets	90	–
Intangible assets	–	3,007
Trade and other payables	(1,683)	(300)
Other current liabilities	(1,046)	–
Provisions – current	(80)	(32)
Other non-current liabilities	(1,253)	(4)
Net assets	**540**	**3,493**
Non-controlling interests in net assets acquired	85	–
Net identifiable assets acquired	**625**	**3,493**

At the dates of acquisition of the various entities, 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 Notes 1(i) and 1(n).

(C) PURCHASE CONSIDERATION

Outflow of cash to acquire controlled entities, net of cash acquired	Notes	2011 $'000	2010 $'000
Cash consideration	33(a)	3,350	1,515
Cash balances acquired	33(b)	(888)	(750)
Outflow of cash		**2,462**	**765**

– (D) DISPOSALS

During the year, SMS disposed of an 85% interest in Human Communications Pty Limited ("Human") for nil consideration. There was no gain or loss on disposal of this entity. SMS retains a 15% equity interest in Human.

NOTE 34. EXPENDITURE COMMITMENTS

(A) CAPITAL EXPENDITURE COMMITMENTS

As at 31 December 2011, the Group had no commitments for expenditure (2010: Nil).

(B) OPERATING LEASE COMMITMENTS

The Group leases various offices with terms of between one and ten years and 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 sublet to third parties.

Future minimum rentals payable under non-cancellable operating leases as at 31 December 2011 are as follows:

	Consolidated Entity	
	2011 $'000	2010 $'000
Within one year	13,544	14,634
Later than one year and not later than five years	41,450	44,871
Later than five years	4,515	14,534
	59,509	**74,039**
Share of jointly controlled entities' operating lease commitments	**3,600**	**4,873**

(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	
	2011 $'000	2010 $'000
Within one year	–	14
Later than one year and not later than five years	–	–
Later than five years	–	–
Total minimum future payments	–	**14**
Future finance charges	–	(1)
Present value of future minimum payments	**–**	**13**
Included in the financial statements as:		
Current liability	–	13
Non-current liability	–	–
	–	**13**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 11 (CONTINUED)

NOTE 35. CONTINGENT LIABILITIES

The consolidated entity had contingent liabilities in respect of:

		Consolidated Entity	
	Notes	2011 $'000	2010 $'000
Bank guarantees	35(b)	7,391	7,171
		7,391	**7,171**

(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 $7,391,000 (2010: $7,171,000) 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 facilities totalling $170,000,000 (2010: $170,000,000) 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 are 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	Ownership Interest 2011	Ownership Interest 2010	Country of Incorporation/ Formation
– Belshaw Pty Limited *	Ordinary	100%	100%	Australia
– Hoed Holdings Pty Limited *	Ordinary	100%	100%	Australia
– Ogilvy Interactive Pty Limited *	Ordinary	100%	100%	Australia
– Singleton Direct Pty Limited *	Ordinary	100%	100%	Australia
– STW Investments Pty Limited *	Ordinary	100%	100%	Australia

	Type of Share/Unit	Ownership Interest 2011	Ownership Interest 2010	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
– Barton Deakin Pty Limited (i)	Ordinary	75%	–	Australia
– Bento Productions Pty Limited (formerly Plush Films Pty Limited)	Ordinary	53%	53%	Australia
– Hawker Britton Group Pty Limited (i)	Ordinary	100%	100%	Australia
– Neo@Ogilvy Pty Limited (formerly Red Temple Pty Limited)	Ordinary	100%	100%	Australia
– Octopus Holdings No. 1 Pty Limited and its controlled entity	Ordinary	100%	100%	Australia
– Octopus Communications Pty Limited	Ordinary	100%	100%	Australia
– OgilvyAction Pty Limited	Ordinary	100%	100%	Australia
– Red Card Communications Pty Limited	Ordinary	100%	100%	Australia
– Red Tape Commercials Pty Limited	Ordinary	100%	100%	Australia
– Singleton OgilvyInteractive Pty Limited	Ordinary	100%	100%	Australia
– Singleton Ogilvy & Mather (NZ) Limited and its controlled entity	Ordinary	100%	100%	New Zealand
– Ogilvy New Zealand Limited (iii)	Ordinary	85%	65%	New Zealand
– Ogilvy & Mather (Sydney) Pty Limited (formerly Singleton Ogilvy & Mather (Sydney) Pty Limited) and its controlled entities	Ordinary	100%	100%	Australia
– Ethnic Communications Pty Limited	Ordinary	100%	100%	Australia
– Singleton OgilvyOne Pty Limited (formerly OgilvyOne Pty Limited)	Ordinary	100%	100%	Australia
– Singleton Ogilvy & Mather (Melbourne) Pty Limited formerly (Ogilvy & Mather (Melbourne) Pty Limited)	Ordinary	100%	100%	Australia
– The Ogilvy Superannuation Pty Limited	Ordinary	100%	100%	Australia
– Star Advertising Pty Limited	Ordinary	100%	100%	Australia
– STW Media Pty Limited and its controlled entities *	Ordinary	100%	100%	Australia
– Ikon Communications Pty Limited *	Ordinary	100%	100%	Australia
– SBS Asia Pacific Pty Limited and its controlled entity (i), (ii)	Ordinary	100%	–	Australia
– New Dialogue Pty Limited (i), (ii)	Ordinary	100%	–	Australia

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 11 (CONTINUED)

NOTE 36. SUBSIDIARIES (CONTINUED)

	Type of Share/Unit	Ownership Interest 2011	Ownership Interest 2010	Country of Incorporation/ Formation
– STW Media Services Pty Limited and its controlled entities *	Ordinary	100%	100%	Australia
– Adcast Technology Unit Trust *	Ordinary	100%	100%	Australia
– Added Value Australia Pty Limited	Ordinary	51%	51%	Australia
– AMR Interactive Group Pty Limited and its controlled entities *	Ordinary	100%	100%	Australia
– Assignment Group Australia Pty Limited (formerly STW Village Pty Limited) *	Ordinary	100%	100%	Australia
– Haylix Pty Limited (formerly Brighthost Pty Limited) *	Ordinary	100%	100%	Australia
– Customer Brand Services Pty Limited ATF CBS Marketing Services Unit Trust *	Ordinary	100%	100%	Australia
– Green Five Pty Limited and its controlled entities	Ordinary	90%	90%	Australia
– DT Digital Pty Limited *	Ordinary	100%	100%	Australia
– Human Communications Pty Limited (iv)	Ordinary	–	100%	Australia
– iCRE8 Pty Limited	Ordinary	51%	51%	Australia
– Ikon Communications (Melbourne) Pty Limited	Ordinary	80%	80%	Australia
– I.M. Advertising Pty Limited	Ordinary	70%	70%	Australia
– Issues & Images Holdings Pty Limited and its controlled entities *	Ordinary	100%	100%	Australia
– The Issues & Images Group Pty Limited *	Ordinary	100%	100%	Australia
– Badjar Ogilvy Unit Trust and its controlled entities	Ordinary	67%	67%	Australia
– Stacke Services Pty Limited *	Ordinary	100%	100%	Australia
– Canning Advisory Services Pty Limited and its controlled entities	Ordinary	80%	80%	Australia
– Canning Corporate Communication Pty Limited	Ordinary	100%	100%	Australia
– Savage & Partners Pty Limited	Ordinary	100%	100%	Australia
– Cornwell Design Pty Limited (i)	Ordinary	100%	100%	Australia
– Lawrence Creative Strategy Pty Limited *	Ordinary	100%	100%	Australia
– McMann & Tate Agency Pty Limited *	Ordinary	100%	100%	Australia
– Moon Communications Group Pty Limited and its controlled entity *	Ordinary	100%	100%	Australia
– Ka Ching TV Pty Limited *	Ordinary	100%	100%	Australia
– Newgency Pty Limited *	Ordinary	100%	100%	Australia
– One 20 Pty Limited (formerly Red Arrow Strategy Pty Limited)*	Ordinary	100%	100%	Australia
– Oxygen Learning Pty Limited *	Ordinary	100%	100%	Australia
– Peach Advertising Pty Limited *	Ordinary	100%	100%	Australia
– Rhodon IT Pty Limited *	Ordinary	100%	100%	Australia

	Type of Share/Unit	Ownership Interest 2011	2010	Country of Incorporation/ Formation
– Sales Success (Aust) Pty Limited and its controlled entities (i)	Ordinary	100%	100%	Australia
– Tribe Media Solutions Pty Limited	Ordinary	100%	100%	Australia
– Senior Minds Pty Limited	Ordinary	80%	80%	Australia
– Straterjee Pty Limited (ii) *	Ordinary	100%	–	Australia
– STW Group (NZ) Limited and its controlled entities	Ordinary	100%	100%	New Zealand
– Assignment Group New Zealand Limited	Ordinary	100%	100%	New Zealand
– Designworks (NZ) Limited (i)	Ordinary	100%	100%	New Zealand
– Haines NZ Limited (i)	Ordinary	100%	100%	New Zealand
– Ikon New Zealand Limited	Ordinary	71%	71%	New Zealand
– STW Smollan Field Marketing Pty Limited and its controlled entity	Ordinary	51%	51%	Australia
– Quality National Team Pty Limited (i)	Ordinary	100%	–	Australia
– STW Win Pty Limited *	Ordinary	100%	100%	Australia
– Subnine Pty Limited (iii) *	Ordinary	100%	94.9%	Australia
– Team Red Communications Pty Limited *	Ordinary	100%	100%	Australia
– The Brand Agency Unit Trust and its controlled entity (iii)	Ordinary	84%	80%	Australia
– Rolfe Limited	Ordinary	100%	–	New Zealand
– The Corporate Film Company Pty Limited *	Ordinary	100%	100%	Australia
– The MissingLink Pty Limited *	Ordinary	100%	100%	Australia
– The Punch Agency Pty Limited (formerly Brett Goulston & Associates Pty Limited) *	Ordinary	100%	100%	Australia
– Designworks (Melbourne) Pty Limited (formerly Yello Brands (Melbourne) Pty Limited) (i)	Ordinary	100%	100%	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 or units in the entity during the year.
(iv) During the year, STW Media Services Pty Limited ("SMS") disposed of an 85% interest in Human Communications Pty Limited ("Human"). SMS retains a 15% equity interest in Human.

* These subsidiaries have been granted relief from the necessity to prepare a financial report in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission.

CLASS OF EQUITY

For each of the controlled entities listed above, with the exception of Badjar Ogilvy 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 11 (CONTINUED)

NOTE 37. DEED OF CROSS GUARANTEE

STW Communications Group Limited and its controlled entities are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and Directors' Report under Class Order 98/1418 issued by the Australian Securities and Investments Commission.

(a) Consolidated income statement, consolidated statement of comprehensive income and summary of movements in consolidated retained earnings

The above companies represent a 'closed group' for the purpose of the Class Order, and as there are no other parties to the deed of cross guarantee that are controlled by STW Communications Group Limited, they also represent the 'extended closed group'.

Set out below is a consolidated income statement, a consolidated statement of comprehensive income and a summary of movements in consolidated retained earnings for the year ended 31 December 2011 of the closed group consisting of STW Communications Group Limited and its controlled entities.

	2011 $'000	2010 $'000
Income statement		
Profit before income tax	43,525	49,951
Income tax expense	(5,575)	(5,594)
Net profit	**37,950**	**44,357**
Statement of comprehensive income		
Net profit	**37,950**	**44,357**
Other comprehensive income		
Cash flow hedges gain on cash flow hedges taken to equity	1,723	1,641
Income tax relating to components of other comprehensive income	(517)	(492)
Other comprehensive income (net of tax)	1,206	1,149
Total comprehensive income	**39,156**	**45,505**
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the year	59,574	25,309
Net profit	37,950	44,357
Changes to the entities within the closed group	(1,872)	5,573
Dividends provided for or paid	(26,230)	(15,665)
Retained earnings at the end of the financial year	**69,422**	**59,574**

Balance Sheet	2011 $'000	2010 $'000
Current assets		
Cash and cash equivalents	54	16,096
Trade and other receivables	83,330	69,985
Current tax assets	–	1,123
Other current assets	5,777	5,920
Total current assets	**89,161**	**93,124**
Non-current assets		
Other receivables	59,197	64,532
Investments accounted for using the equity method	96,308	100,326
Other financial assets	208,126	216,164
Plant and equipment	10,092	7,907
Deferred tax assets	6,457	6,165
Intangible assets	142,959	112,380
Other non-current assets	1,106	1,116
Total non-current assets	**524,245**	**508,590**
Total assets	**613,406**	**601,714**
Current liabilities		
Trade and other payables	100,595	127,125
Borrowings	5,140	501
Current tax liabilities	5,173	9,118
Provisions	2,319	2,387
Total current liabilities	**113,227**	**139,131**
Non-current liabilities		
Other payables	22,487	30,521
Borrowings	109,133	73,299
Deferred tax liabilities	1,031	1,408
Provisions	1,440	1,287
Total non-current liabilities	**134,091**	**106,515**
Total liabilities	**247,318**	**245,646**
Net assets	**366,088**	**356,068**
Equity		
Issued capital	296,144	297,435
Reserves	522	(941)
Retained earnings	69,422	59,574
Total equity	**366,088**	**356,068**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 11 (CONTINUED)

NOTE 38. AUDITORS' REMUNERATION

	Consolidated Entity	
	2011 $	2010 $
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	670,000	700,000
– tax compliance services in relation to the entity and any other entity in the consolidated entity	112,790	80,090
	782,790	**780,090**
Amounts received or due and receivable by BDO New Zealand Ltd for an audit of the financial report of entities within the consolidated entity	**74,000**	**86,469**

NOTE 39. EVENTS OCCURRING AFTER THE REPORTING PERIOD

Subsequent to the end of the year, the Directors declared the payment of a fully franked final dividend of 5.0 cents per fully paid ordinary share. The record date for determining entitlement is 6 April 2012 and the final dividend is payable on 20 April 2012. The estimated amount payable is $18,140,000. The financial impact of the final dividend is not included in the results for the year ended 31 December 2011.

STW Media Services Pty Limited ("SMS"), disposed of 33.33% of its equity interest in DT Digital Pty Limited ("DT Digital"). SMS will retain a 66.67% equity interest in DT Digital.

Subsequent to the year end, SMS has made the following acquisitions:

- a 49% equity interest in Purple Communications Australia Pty Limited, a PR consultancy agency based in Perth, Western Australia;
- a 60% equity interest in Buchanan Group Pty Limited, an advertising and communications company with offices in Melbourne, Singapore, Northern America and Canada;
- a 80% equity interest in Yellow Edge Pty Limited, a Canberra based training company; and
- a 51% equity interest in Bullseye, a digital company based in Sydney with offices in Indonesia.

The acquisitions above included total completion payments of $8 million with additional earnouts to be made tied to future performance of the individual entities. Additional disclosures have not been made in relation to acquisitions due to the agreements being signed just prior to the signing of the financial report.

Subsequent to the year end, STW has exercised an option to extend facilities covering $85 million in debt lines and all of its bank guarantee facility. This further extends this facility by 12 months to January 2015.

Apart from the items 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	
	2011 $'000	2010 $'000
Balance sheet		
Current assets	27,300	29,932
Non-current assets	439,899	432,353
Total assets	467,199	462,285
Current liabilities	10,833	14,221
Non-current liabilities	159,579	150,529
Total liabilities	170,412	164,750
Net assets	**296,787**	**297,535**
Equity		
Issued capital	296,144	297,435
Reserves	66	(186)
Retained earnings	577	286
Total equity	**296,787**	**297,535**
Net profit	26,522	20,661
Total comprehensive income	**25,502**	**19,512**

(B) CONTINGENT LIABILITIES OF THE PARENT ENTITY

The parent entity had contingent liabilities in respect of:

	Parent Entity	
	2011 $'000	2010 $'000
Bank guarantees	**7,391**	**7,171**

The Company has provided various bank guarantees for rental premises totalling $7,391,000 (2010: $7,171,000) 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 (2010: $170,000,000) 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 are in compliance with International Financial Reporting Standards, as stated in Note 1 to the financial statements;

(c) 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; and

(d) the Directors have been given the declarations required by section 295A of the Corporations Act 2001.

At the date of this declaration, the company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed, guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

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.

Signed in accordance with a resolution of the Directors made pursuant to section 295(5) of the Corporations Act 2001:

Robert Mactier	**Michael Connaghan**
Chairman	Chief Executive Officer

Sydney, 30 March 2012

INDEPENDENT AUDITOR'S REPORT

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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225 George Street
Sydney NSW 2000
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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 Communications Group Limited, which comprises the balance sheet as at 31 December 2011, the income statement, the statement of comprehensive income, cash flow statement and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, 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 55 to 123.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply 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. Those 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 of the financial report that gives a true and fair view, 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of STW Communications Group Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

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 2011 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 statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 31 to 48 of the directors' report for the year ended 31 December 2011. 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 2011, complies with section 300A of the Corporations Act 2001.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Stephen Holdstock
Partner
Chartered Accountants
Sydney, 30 March 2012

ASX ADDITIONAL INFORMATION AS AT 14 MARCH 12

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 14 March 2012 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	1,480	619,282
1,001 – 5,000	1,755	5,000,729
5,001 – 10,000	809	6,278,703
10,001 – 100,000	989	26,721,630
100,001 and over	71	324,178,007
	5,104	**362,798,351**

(B) MARKETABLE PARCEL

The number of shareholders holding less than a marketable parcel of shares (ie $506 worth of shares), is 971. In accordance with ASX Business Rules, the last sale price of the Company's shares on the ASX on 14 March 2012 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	20.67
National Nominees Limited	50,829,787	14.01
HSBC Custody Nominees (Australia) Limited	42,724,482	11.78
JP Morgan Nominees Australia Limited	38,168,924	10.52
RBC Dexia Investor Services Australia Nominees Pty Limited (Pipooled A/C)	37,398,964	10.31
Citicorp Nominees Pty Limited	20,934,125	5.77
Cogent Nominees Pty Limited	13,890,607	3.83
Citicorp Nominees Pty Limited (Colonial First State Inv A/C)	8,087,084	2.23
CPU Share Plans Pty Ltd	6,184,833	1.70
JP Morgan Nominees Australia Limited (Cash Income A/C)	5,434,768	1.50
RBC Dexia Investor Services Australia Nominees Pty Ltd (Piselect A/C)	3,381,046	0.93
RBC Dexia Investor Services Australia Nominees Pty Ltd (Gsam A/C)	2,386,105	0.66
Queensland Investment Corporation	2,323,387	0.64
ABN Amro Clearing Sydney Nominees Pty Ltd (Custodian A/C)	1,256,700	0.35
UBS Nominees Pty Ltd	1,232,240	0.34
Josseck Pty Limited (The Josseck Family A/C)	900,000	0.25
Equity Trustees Limited (SGH IC2E)	810,940	0.22
Grant Samuel Tribeca Small Companies Fund	732,034	0.20
UBS Wealth Management Australia Nominees Pty Ltd	646,966	0.18
Sandhurst Trustees Ltd (Australian New Horizons A/C)	507,499	0.14
	312,830,491	**86.23**

(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	20.7%
Perpetual Limited	43,109,106	11.9%

(i) Cavendish Square Holdings BV is a wholly-owned subsidiary of WPP Group plc ("WPP"). As at 14 March 2012, WPP had one nominee 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)
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 18 May 2012 at:
Ogilvy House
72 Christie Street
St Leonards NSW 2065.

ABN
84 001 657 370