Diversity is Growth

STW 2012 Annual Report

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Inside

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STW Group is one of the world's largest and most successful marketing content and communications groups. We believe that ideas create growth. Simple really. We are full of great ideas. Those ideas create growth for our people, our companies, our clients, our shareholders, for society.

We at STW believe that what we do is important. Ideas and innovation are what makes the world go around, particularly the marketing world.

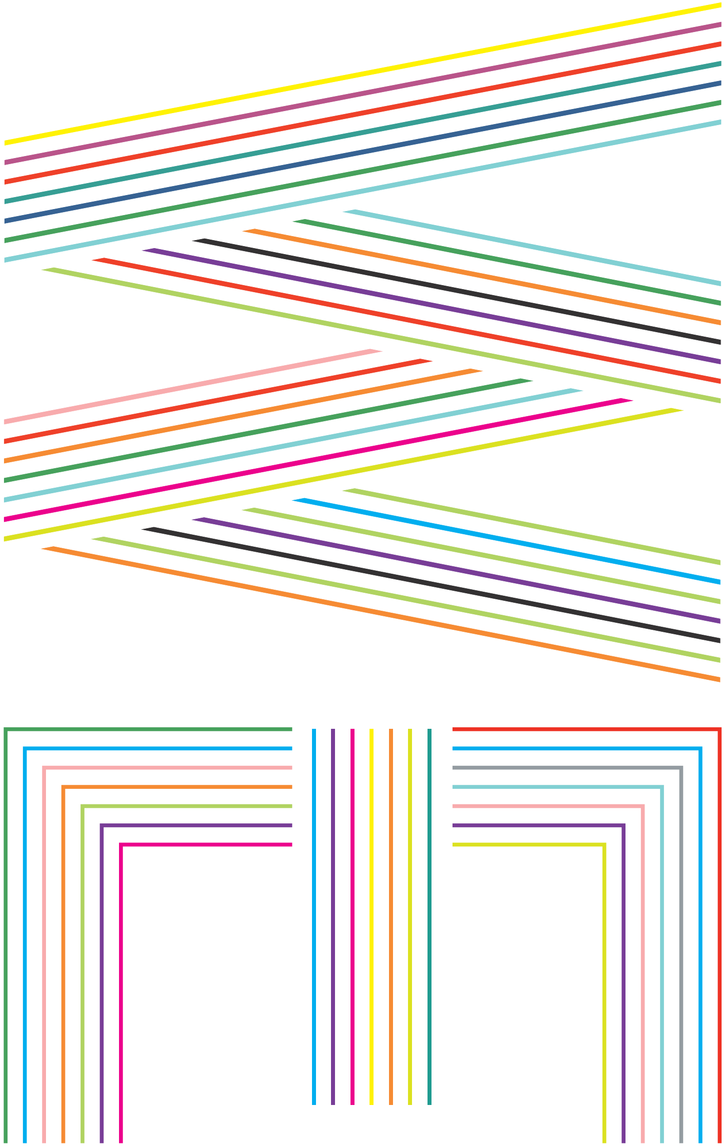
The continued resilient and consistent growth performance in a fast evolving industry and in uncertain, challenging economic conditions highlights the benefits of the diversification that underpins our business model. STW Group has multiple offerings within each industry sector, a wide spread of client engagements with no material reliance on any individual revenue source and have diversified our geographic footprint into higher growth new markets.

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.

During 2012, the Company has continued to make solid progress on these strategic goals.

Company Highlights

- **Australasia's largest, most profitable marketing and communications business**
- **Solid revenue and profit growth, which are largely organic**
- **Continued to grow market share within Australia and New Zealand, strengthening and further diversifying our portfolios with investments in quality businesses**
- **We continue to invest in new revenue streams and to incubate new business start-ups**
- **Focus on geographic expansion and exporting home grown brands and intellectual property**
- **Strong momentum in digital and technology leadership**
- **Balance sheet remains extremely robust**
- **Additional banking facilities of $50 million signed in July 2012**
- **Total dividend relating to the 2012 year of 8.3 cents per share, fully franked. Full year dividend payout ratio increased to 70% of underlying profit, reflecting strong business performance and confidence in outlook**



Who We Are

The STW Group is made up of more than 70 operating companies that span across every marketing communications, content and production discipline:

- Advertising
- Media
- Insights and research
- Branding
- Public relations and government relations
- Brand activation
- Digital
- Field and Shopper Marketing
- Data
- Loyalty and CRM.

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 3,500 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 South East Asia. 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 world wide web came along and heralded a new era of media.

Yes, change in our business is constant. 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.
- 'Word of Mouth' is more important and potent 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.

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. Learn from the past, embrace the future.

Why We Do It

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 substantially progressed 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 7 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 build a solid business plan and 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. These thinkers are 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 paints them as world class 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.

Diversity is

Dear Shareholders,

STW's financial results for 2012 were another positive endorsement of our strategy to evolve STW into a more collaborative and unified marketing and communications group.

The financial highlights for the year ended 31 December 2012 included:

- Proportionate share of revenue was $357.8 million, an increase of 10.9%
- Proportionate share of EBITDA was up 10.0% to $79.3 million
- Underlying net profit after tax grew by 6.5% to $44.0 million
- Operating cash flow was $52.6 million with an EBITDA conversion to cash of 92%
- Full year dividend was 8.3 cents per share (fully franked) an increase of 3.8% over 2011.

STW's 2012 results were again delivered against a backdrop of difficult economic conditions. However it seems that "difficult economic conditions" may indeed be the new normal in the geographies in which we operate. To have again delivered growth without any favourable economic tailwinds was a strong outcome for our shareholders. Our strategy of diversifying our geographic exposure and our diversified business offerings has been a key driver of our ability to deliver in tough times.

But it is not just difficult economic conditions that we need to deal with. STW is at the forefront of a very fast moving transition into a digital world and the resultant fragmentation of audiences and the explosion of data, consumer choice and channels to communicate. It is indeed a challenging operating environment but inherently STW sees this transition not so much as a threat but as a real opportunity to gain market share led by the superior breadth of skills, technological and creative expertise that STW can lay claim to across our group companies.

Our financial results and our positive outlook is in reality a measure of the success that STW is having in recruiting, developing, challenging, rewarding and retaining skilled and capable people. STW is ultimately a diversified collective of prodigiously talented individuals operating under numerous different brands across a multitude of marketing and communications disciplines. To all our dedicated employees thank you for your continued pursuit of excellence and delivery of high quality creative solutions for our clients during 2012.

To this end I must also extend thanks on behalf of our shareholders to our senior leadership team of Mike Connaghan, Chris Savage and Lukas Aviani for another strong year. It is an unrelenting job trying to manage so many successful people and businesses across so many competencies and across more geographical boundaries. I trust that our shareholders will recognise that the performance of STW in 2012 and our continued progress on the strategic path that we have set is in large part a reflection of the contribution of Mike, Chris and Lukas and the support they engender from across the group. Well done!

I would also like to again extend my thanks to my fellow directors. I can assure our shareholders that you have a very committed and supportive group of directors who are able to contribute a wide set of experiences and skills to the stewardship of STW. To my fellow directors, thank you for your ongoing support and contribution to STW.

Whilst we are confident in our strategic position and the opportunity in front of us we are far from complacent and you can be assured that STW will not ease up on the accelerator in the year ahead.

I hope to see as many of you as possible at the Annual General Meeting but as always would welcome any input and ideas that you as shareholders may have about your company.

Yours faithfully,

Robert Mactier
Chairman

CEO's Report

2012 was a good year for STW. On any measure our results were pleasing. Growing revenue and profit in a very tough economic environment is testament to the strength of our model and further validates our strategy and the wonderful diversity of our Group.

STW has a three pillared strategic growth focus; to maintain and grow our leadership positions in Australia and New Zealand; to continue to grow and dominate in the dynamic digital sector; and to carefully export our footprint into new markets, with a particular focus on South East Asia.

Ever since we started down the track of diversification at the turn of this century, we had in mind a mission. A mission that would see STW Group able to service 100% of a client's marketing needs. That mission will never be complete. New areas of opportunity will continually evolve. STW must always be looking around the corner for what's next. In order to stay ahead of our competition and deliver tangible advantage to our clients we will continue to explore and open new areas of growth. David Ogilvy called it 'Divine Discontent'. In fact even as I write I feel we need to expand our mission even further. There is no doubt the structural change the digital revolution brings means our remit now emanates from beyond just marketing budgets but just as likely to come from IT, HR, capex or the CEO's office.

As such 2012 was a year where we made some very important strategic acquisitions. Cementing our leadership position in Australia and New Zealand and keeping in front of the digital revolution enveloping our society provides the bedrock for future growth.

We were very pleased and appreciated the resounding support for the capital raising we conducted late in 2012. At the time of writing, all shareholders old and new who participated in the raising, I hope would be happy with their investment.

I can assure you, the funds have been put to good use. In the critical shopper marketing sector, we finalised our investment in Markitforce, an investment which helps consolidate our growing presence in the fast growth 'Path to Purchase' sector.

In Asia we have invested in Aleph, a digital, data and e-commerce specialist, building on the earlier acquisition of Edge (Thailand/Vietnam/Singapore/Kuala Lumpur) and the startup of Alpha Salmon (Indonesia and Singapore) a digital built specialist born in Sydney.

Another significant investment in 2012 was the outstanding Australian born but now international branded advertising solution business, Buchanan Group. Better known for banners such as Brandpower and Zoot Review, Buchanan's is a story which parallels perfectly with that of STW. Australian at its core, Buchanan now has offices spanning the globe. Importantly they have followed clients and revenue off shore, not a whim. Many copy cats have emerged here in Australia, just as many have tried to emulate what we have done at STW. As part of STW, Buchanan will see the pretenders off and flourish and prevail just like STW.

We have welcomed quite a few more new members to our Group. Some acquired, some incubated. Purple in Financial PR, a brilliant Perth based partner giving us exposure to the mining sector. Switched on Media and Amblique, ecommerce specialists, Maverick an experiential marketing business and Yellow Edge a training business based out of Canberra providing another access point to the important Government sector.

Recently incubated businesses are now all serious revenue and profit contributors. Barton Deakin (Public Affairs), Houston (Strategic Consulting), Bohemia (Media/Content Management) and Picnic (Marketing Automation) are all home grown success stories which are testament to the strength of our group and the incredible energy, talent and foresight of our people. Our ability to see the gap and grasp the opportunity is a huge part of our DNA and will help us stay one step ahead.

On the subject of people, I proudly talk about SPUR every year. This year is no different. We have again raised the bar on training. Along with our standard courses where thousands of individual courses are delivered, this year we developed our own intensive digital training academy. 650 of our staff from across the group, from the most senior to the most junior accessed the training. We will not rest on the training front. Helen O'Byrne who is our leader of SPUR deserves special mention for driving the quality and engagement of the program. It truly is one of our core differentiators and as new companies and staff join the group it is always something held up as a key benefit which helps STW stand above all of our competitors.

2013 is an exciting year for the Group. Our traditional businesses had pleasing results in 2012 which looks set to continue this year. The investment we have made in future proofing ourselves is delivering benefits. We now have a strong foothold in South East Asia. Our build there will remain cautious but so far has exceeded our expectations. We began the journey not much more than a year ago when we opened Alpha Salmon in Jakarta. Already across South East Asia we have $25 million in revenue and 500 staff. Shortly our Singapore hub will be operational and we will be well on our way to establishing the first digitally led, specialist network with South East Asia as its focus.

The final message is one of thanks to all the support we have received. Every day is a very different day in our world. The resilience demonstrated across our Leadership Group is without a doubt unique in our industry. The loyalty of our people, the fact that we don't lose people that we want as part of the Group is testament to our spirit. The constant focus on partnership and helping each other out is a hallmark of the STW Group which to my eye, does not exist in any other marketing services group.

We have an outstanding list of clients who deserve our thanks for their continued faith and loyalty in entrusting us with their marketing communication needs. Thanks to Rob Mactier and the STW Board for their advice and support. Special thanks to Chief Operating Officer, Chris Savage and Chief Financial Officer, Lukas Aviani; another outstanding year guys. To the support staff at the head office, we are a lean team but a high performance group; John, Dave, Emma, Sally, Alex, Helen, Alex, Rob and David we couldn't do it without your tenacious attitudes.

Lastly, to the loyal shareholders, thank you. We are in a good place, have momentum on our side and an exciting future.

Yours faithfully,

Mike Connaghan
CEO

Our Companies

ADCAST marketing automation
ADDEDVALUE
amr Research directions that matter
alphasalmon
AppCast
Buchanan Group
bullseye
brain department
CANNINGS CORPORATE COMMUNICATIONS
catalyst marketing, communications & online
etcom
evocatif BUILDING BRANDS WHERE IT COUNTS
fabric
feedback asap
groupm
Houston.
HOWORTH Business and Technology Communication An Ogilvy PR Worldwide Company
IKON
im promos
ima the b2b marketing company
maxus
MINDSHARE
MOON
neo@Ogilvy
Ogilvy
Ogilvy Public Relations
Ogilvy PR Health
ONE20
THE ORIGIN AGENCY
THE ORU ONLINE RESEARCH UNIT
Shift
SMOLLAN AUSTRALIA FIELDMARKETING
Spinach
subnine
TAGUCHI digital marketing system
[Touchpoint] RESEARCH AUSTRALIA
TRIBE
yellow edge

stw group

Assignment

BADJAR Ogilvy

barton deakin Government Relations

BENTO

bohemia

Cornwell

DT

Designworks.

edge

enigma

hainesattract

hatch

Hawker Britton Public Affairs Solutions government relations | strategic communications | campaigns

haylix

HOED IMPROVING THE CUSTOMER EXPERIENCE

JAM

junior

JWT

Lawrence.

massive

OgilvyAction

OgilvyEarth

Ogilvy impact An Ogilvy PR Worldwide Company

OgilvyInteractive

OgilvyOne worldwide

PARAGON DESIGN GROUP

Parker&Partners An Ogilvy PR Worldwide Company

pHuel

PULSE COMMUNICATIONS

CANNINGS PURPLE STRATEGIC COMMUNICATIONS

THEBRANDAGENCY

theMissingLINK

white

Tongue

Our Work

"Diversity has made STW Australasia's most successful communications services group. Our breadth of skills, capabilities and partnerships deliver an enviable portfolio of businesses, campaigns and awards."


SOS
DATA IS A GAME CHANGER
Allen's
SINCE 1891
Share your Smile Maker
Nestlé
CR-V
Win
Say hi to Delphi.
FREQUENT FLYER
FREE TAXI
CAN YOUR BANK HELP YOU SAVE?
COMMBANK CAN
vodafone
Our Nation.
Kylie
Luke
ICE CREAM
96%
83%
87%
40%
82%
of South Australians have internet access.
70%
are online for at least one hour every day.
The heaviest users are 18–40 years old, single, professionally employed and high-earners.
POWERADE
YOU DON'T NEED SMOKE TO REACH NEW HEIGHTS
BRIDGE TO BRISBANE
11314
ONLY CHANDON
AURIZON
SUNSENSE UV PHOTOBUS
mystyle

Path to diversity

Building success through diversity means examining every aspect of what we do in great detail. From the people we employ to the partnerships we nourish, actively pursuing strategies of diversification is the key to our ongoing success. It is vital to ensure that the capabilities we build and the disciplines we master are broad so we are well placed to tackle the many and varied business challenges and opportunities that are presented to us. It is our goal to leave no aspect of the media and communications environment untouched by appointing the right people, applying relevant training programs, developing vast business proficiencies and ensuring that our leading portfolio of companies has something to offer every industry. The path is long and we are far into the journey.

DIVE

Diversity creates growth

Whoever decreed that it was unwise to put all your eggs in one basket was really on to something. They understood that in order to find success, it is essential to diversify – not only to minimise risk, but to maximise reward. If we only focused doing one thing, very little would get done. By expanding our horizons and tackling new challenges we complement and expand on what we already know. And every new capability we develop is another area in which we aim to excel. In this digital age, growth comes not from doing things as they have always been done, but from developing new competencies, forging into new markets and building a presence in new territories. Growth doesn't come from standing still.

"It is vital to ensure that the capabilities we build and the disciplines we master are broad so we are well placed to tackle the many and varied business challenges and opportunities that are presented to us."

“We have the intellectual property and potential within STW for extraordinary growth in Asia by exporting our capabilities to the right markets. By investing in leading on-the-ground businesses and encouraging their momentum and differentiation, we have been able to cherry-pick our first steps into Asia. We’re delighted with the outcome.”

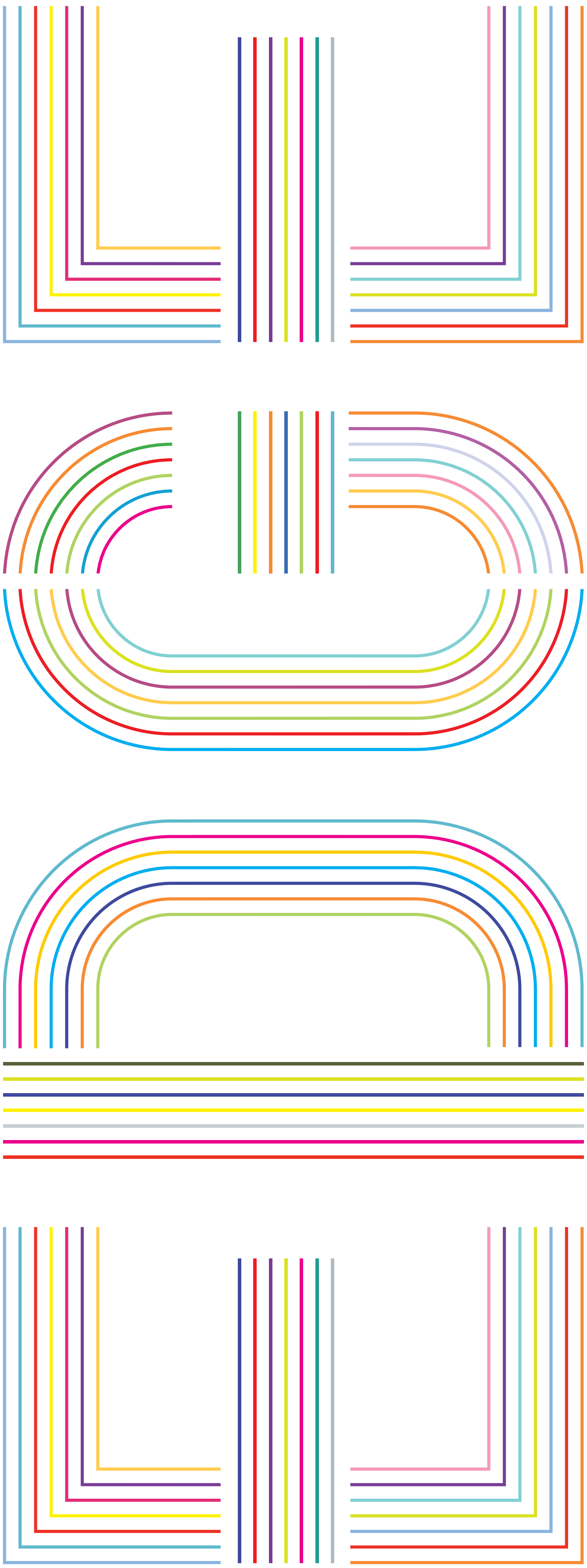
ASIA & beyond

Expanding STW Group's footprint throughout South East Asia remains a key focus and a crucial pillar of our overall growth strategy. In 2012, we made excellent progress towards our goal of building the most influential, sought-after marketing content and communications network in the region. We enter 2013 with more than 600 employees across nine agency brands and a strong presence in the key markets of Singapore, Malaysia, Indonesia, Thailand and Vietnam. With a digitally led offering driven by a truly entrepreneurial culture, these businesses together represent a formidable competitive force – one that is already taking the South East Asia market by storm.

Alex Campbell

"The Edge team represents the very best of what has made STW successful on our home shores – an entrepreneurial drive, a strong spirit of partnership, and a constant questioning of "What's next?"

Alex Campbell
Business Manager, STW Communications Group Limited



An Edge in Vietnam

From the moment you step off the plane at Tan Son Nhat airport in Ho Chi Minh City, Vietnam, it is impossible to escape the feeling that you've arrived in a place on the cusp of something extraordinary. There is a sense of urgency, of destination, of an unyielding desire to close gaps and build a globally competitive nation.

From the rice paddies of Sapa to the bustling streets of the south, there's a desire for more. This is an economy driven by a young and rapidly growing population of 90 million, unstoppable urbanisation and the strong emergence of a domestic consumption based economy. These forces have together created a rising middle class that today stands clearly in the sights of almost every major global brand.

Already the digital revolution is taking hold in Vietnam even faster and more profoundly than it has in Western markets. Vietnamese consumers are adopting new technologies and ways of communicating faster than even the most sophisticated marketers can keep up.

Vietnam has 'leapfrogged' the early stages of digital development that other markets have experienced - today Vietnam has more than 11 million Facebook users, 30 million internet users, and 19 million smartphones. In short, this is a digital market where consumers are leading the way and agencies with the right know-how are playing a vital role in helping clients keep up.

In 2011, STW Group took our first steps into the enormous potential of this market by investing in Edge Asia. Edge was born in Ho Chi Minh City nearly a decade ago and has been pioneering digital marketing here and throughout South East Asia ever since.

Today Edge has over 450 passionate employees across six offices in Vietnam, Thailand, Singapore, Malaysia and Indonesia. Unlike many of its competitors that were born on Madison Avenue more than half a century ago, Edge truly has its heart and soul grounded in South East Asia's digital age.

Digital has been part of Edge's DNA since day one, building and managing sophisticated data-driven campaigns and programs for major global brands including Diageo, Mead Johnson and Citibank. With capabilities ranging from social CRM to performance media, Edge is uniquely positioned to service sophisticated regional clients with deep local expertise and in the digital language that these consumers have come to expect.

I've been very fortunate to have the opportunity to spend the past three months based out of Ho Chi Minh City working closely with the Edge team. In this time I have seen first-hand that the Edge team exemplifies the very best of what has made STW successful on our home shores - an entrepreneurial drive, a strong spirit of partnership, and a constant questioning of "What's next?"

With Edge and the exceptional new partners that have joined our South East Asia network over the past eighteen months, STW's digitally-led expansion into the region is already well under way and continues to accelerate. More than 60% of our 2012 revenues from South East Asia came from digital services and this is set to increase again this year as we add more diverse new capabilities to the mix.

The rest of this story is yet to be written, but today we are more confident than ever that the digitally-led STW network that we're building in South East Asia is right for both today and tomorrow.

Helen O'Byrne

"Every staff member in STW's 70-plus companies is culturally unique, bringing their own values, perspectives, concerns and agendas. Effective learning means understanding each person's individuality and providing a variety of programs recognising diversity and promoting participation."

Helen O'Byrne
Director Learning & Development STW Group

Diversity in talent

Every organisation depends on its human resources for success. Today, career paths change quickly, employee engagement is low and competition for talent is fierce.

How, then, do you attract people with the skills, enthusiasm and desire to be their best? How do you develop the skills that increase revenues, profits, and competitive advantage?

At STW our people are our most valuable resource. As the largest communications company in Australasia, our success relies on continuous improvement – learning and development is critical to growth.

Our diversity provides us with an incredible opportunity. By mixing our people from multi-disciplines and geographies, the potpourri of experience accentuates our training efforts and the return on our investment in training multiplies many times over.

"Every staff member in STW's 70-plus companies is culturally unique, bringing their own values, perspectives, concerns and agendas. Effective learning means understanding each person's individuality and providing a variety of programs recognising diversity and promoting participation."

Phuel, a leading training organisation within STW Group, has created programs focused on interaction and practical application. The delivery style encourages people to share their own knowledge and experiences while engaging with and critically challenging both the content and their own behaviours.

STW employs a mix of internal and external facilitators. You are as likely to find an international industry guru out front or indeed the STW CEO, COO or CFO leading the training. The importance to the STW group of having the senior people lead some of the training and have the opportunity to interact with people from all levels of the organisation is incredibly powerful for the group as a whole.

STW implements a three-tiered Learning & Development strategy. The first tier, Spur, was launched in 2005, providing staff with access to over fifty programs. Working in partnership with Australia's most successful facilitators, Spur's consistently evolving curriculum offers traditional classroom style learning and opportunities for staff networking. In 2012, a record 1,500 course bookings were made. In 2013, our Spur programs will be available in both NZ and Asia.

The second tier, STW High Performer, was developed to fast track the careers of future stars of the business. We want to develop and retain employees with the ability, commitment and motivation to rise to senior positions – this program identifies such talent. Seven years on, the program has given us some of our current senior leaders.

Our third tier is the senior executive program Path To Growth, a comprehensive, individualised career development program for current and future leaders. Personal ownership of professional growth is a key responsibility of all leaders. Through a range of executive education programs, Path To Growth aims to create the most rewarding business and creative environment to give leaders the capabilities and expertise to fulfill their roles, advance their careers, adapt to change and develop others.

Our leadership efforts are designed to link personal growth to organisational success – to inspire, connect and develop the leaders of today and tomorrow. While targets can motivate people, sustained success comes from leaders who inspire people to excel.

For 2013, we will build on these strategies. Partnering with Yellow Edge, an STW Group company, our leadership development will focus on working with leaders to develop individual, team and organisational performance. We will add a Blended Learning platform combining e-learning alongside traditional classes – important for context-specific training with trackable learner understanding, delivered quickly and cost-effectively. Also this year comes phase two of the STW Digital Academy as well as a focus on developing great client service skills and improving pitching skills.

Because our success depends on our people, it is imperative that we offer learning and development programs as diverse as each and every one of them.

Women in Leadership

Recent studies, including one by the ASX, show that companies with a gender-diverse senior leadership team are more profitable than those lacking diversity at the top. In fact, a Catalyst study showed companies with more women on their boards have 42% higher sales returns, 66% higher return on invested capital and 53% higher return on equity.[1]

There's more: a Bain and Company study in 2010 showed that 75 per cent of the Australian business community believes gender diversity should be a strategic imperative for their company.[2] However, there is currently little recognition for companies who help drive women into senior leadership. The issue has been around for a long time and women are making inroads at the top of their industries, but there's still a lot of work to be done.

Workplace gender diversity is both a commercial and moral issue for you and your colleagues. A positive, forward-thinking workplace should foster a culture encouraging women to take on senior roles and stay actively involved in their careers. This culture should give women the tools to network better, teach skills in areas women traditionally under-perform and build on skills in areas where they naturally excel.

The banking and consulting industries are leaders in positive gender diversity and the rewards are apparent in both profit and performance. STW made a commitment to the cause in 2012 with the launch of the STW Women in Leadership Group, designed to address key female-centric development areas and devise initiatives to help all STW companies recruit and retain the best female talent in our industry.

One way to achieve this is through mentoring. By mentoring young, up and coming women, STW ensures they have the support, tools and networks needed to reach more senior positions right across the STW group.

Client networking is a key focus area of the mentor program, using events and forums to encourage women to engage more closely with clients. The first client networking event, held in October 2012, was a huge success bringing together over 60 female clients and more than 30 STW companies.

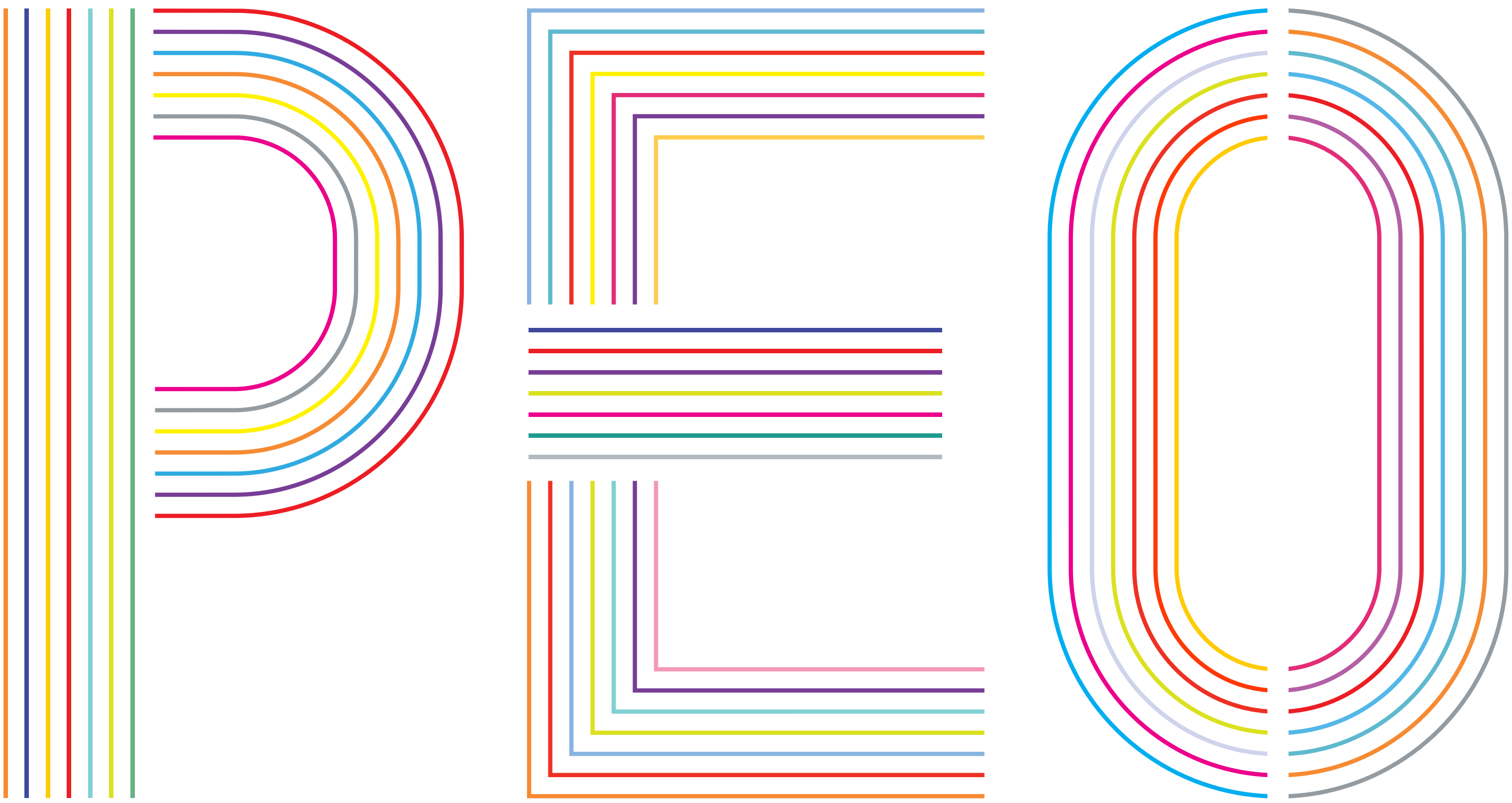
As we look to the future, it is increasingly clear that encouraging women into senior roles brings positive outcomes for women and for companies as a whole. When women feel safe, confident and strong they discover a fearlessness that allows them to do extraordinary things. STW's commitment to a gender diverse workforce is central to our current success and pivotal to building on this success into the future.

Our goals aren't small ones, but when you aim to change the status quo, only big goals will suffice.

[1] "The Bottom Line: Corporate Performance and Women's Representation on Boards", Lois Joy, Nancy M Carter, Harvey M Wagener, Sriram Narayanan, Catalyst, 2007

[2] "Level the playing field: A call for action on gender parity in Australia" Bain Insights, September 22, 2010, www.bain.com/publications/articles/level-the-playing-field-a-call-for-action-on-gender-parity-in-australia.aspx.

Suzanne Acteson



"Have you ever considered what would happen to a company that actively supports and encourages women to take on senior roles? Could such a company thrive? Even become more profitable? The answer is simple – yes. And the evidence is now clear and undeniable."

Suzanne Acteson
Managing Director, Buchanan Group, Oceania

"It's important we take time to check in with friends and family whenever we think they might be struggling with a problem. A conversation could stop a small problem becoming bigger. It can even help save a life."

Janina Nearn
R U OK? Day Co-founder

Diversity doing good

Suicide prevention is everyone's business. But an issue wrapped in fear, trauma, taboo and regret is a hard sell.

It's an issue marketing executive Gavin Larkin and television producer Janina Nearn wanted discussed at every kitchen table across the country when they founded R U OK? Day.

The premise of R U OK? Day is starting conversations to save lives. By encouraging people to ask friends, family and colleagues "are you okay?", the hope is to help the estimated 65,000 Australians who contemplate suicide each year.

Created in 2008 over many coffees near STW's The Brand Shop (now Shift), Gavin and Janina wanted to transform a simple question from meaningless, everyday phrase to one inviting genuine connection between mates.

Both Gavin and Janina shared a passion for building connected communities, but Gavin also knew the sorrow and confusion that comes when someone takes their life following his father's death in 1995. Determined to make a difference, he and Janina invested long hours into creating an advertising and communications strategy to promote regular, meaningful conversations with support from Gavin's crew at The Brand Shop.

Since its official launch at Parliament House in 2009, R U OK? Day has become a household name. In 2012, almost 70 per cent of Australians knew about the day and more than 1 in 3 Australians took part, asking someone "are you ok?"

Its success can be attributed to diverse individuals throwing themselves and their companies behind shaping a national discussion about suicide prevention. The campaign's 2012 success relied upon extensive pro bono support: an advertising campaign generously supported by multiple media owners; creative designs overseen by Designworks, Moon Communications and OgilvyOne; television production by Bento Productions; promotions and an experiential brand experience by Shift; input and evaluation leading researchers and suicide prevention organisations; legal support from Allens and Freehills; celebrity endorsement from Hugh Jackman, Naomi Watts, Libby Trickett and Wendell Sailor; and, most importantly, millions of Australians wanting to make a difference.

If suicide prevention is everybody's business, then Gavin and Janina created a safe platform for community discussion. By helping people rethink the meaning of three little words, they support the work of countless organisations committed to saving an estimated 2,300 Australians every year.

Gavin Larkin passed away in 2011 after a long battle with cancer. His legacy continues under the leadership of Janina and the board, which includes his brother Aya Larkin and STW CEO Mike Connaghan.

R U OK? Day is STW's chosen charity. Co-founded by one of our executives, it receives creative and logistical support from the group, currently housed by Shift.

STW believes in Gavin's and Janina's vision and will play its part in starting conversations to help save lives. Who will you ask?

ruokday.com

R U OK? DAY
A conversation could change a life


LIFEGUARD
RU

"Working closely with R U OK? Day throughout 2012 was an experience Shift will never forget. The spirit and togetherness R U OK? Day promotes is something companies pay a fortune to achieve. I can only say thank you to R U OK? Day. It is an honour to work with a brand that has real purpose and to help champion this cause."

Kate Meyer
General Manager, SHIFT

LEADERS

2012 Leadership Day

Once a year, STW brings its leaders together to celebrate the year just passed and set the course for the year ahead.

In February 2012, STW took to the big stage at NIDA. We had more than 400 of our current and future leaders attend an action packed agenda.

We heard from an ex-prime minister, international industry gurus, media luminaries, record breaking coaches, the daughter of a fallen colleague and many of our thought leaders. It was an incredible day and was awesome to see the group and the collective power of the people being under one roof.

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 former 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 as a Director of STW in July 2008.

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

After spending his first four years as a copywriter at Clemenger BBDO Sydney, Mr Connaghan travelled the world. He joined John Singleton Advertising in 1993 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 oversaw acquisitions, expansion and growth of the Diversified Companies.

Mr Connaghan joined J. Walter Thompson International Limited 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.

Michael 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).

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 a 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.

Graham has over 20 years' experience as a director and audit committee member of public companies in Australia and the US. He is a Director of Challenger Limited, Bell Financial Group Limited, White Energy Company Limited and McPherson’s Limited.

Graham is Chairman of the Audit and 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 founding shareholder of Antipodes Water Company and Lewis Road Creamery.

Mr Cullinane is a Director of SKY CITY Entertainment Group Limited and is a member of their Remuneration Committee and Governance and Nominations Committee.

Peter holds Masters degrees in Business Administration and Management and is an alumnus of Auckland University and Harvard Business School.

Kim Anderson

BA GRAD DIP INF SC

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 curated community 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 2012 (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)
Michael Connaghan (Chief Executive Officer)
Paul Richardson
Ian Tsicalas
Graham Cubbin
Peter Cullinane
Kim Anderson.

Particulars of Directors' qualifications, experience and directorships in other listed entities are set out on pages 30 and 31 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 2012 year was $44.0 million, up 7.5% (2011: $40.9 million).

The Company's underlying profit was $44.0 million, up 6.5% (2011: $41.3 million).

The significant items in the 31 December 2012 year relate to costs incurred attributable to acquisitions and to non-cash accounting gains on the revaluation of future capital payments and are netted to $nil.

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

The Group's full year trading results were strong in the face of continued tough economic conditions. The Group continued revenue and profit growth momentum in the second half of the year, underpinned by organic market share gains.

The continued resilient and consistent growth performance in a fast evolving industry and in uncertain and challenging economic conditions, highlights the benefits of the diversification that underpins our business model. The Group has multiple offerings within each industry sector, a wide spread of client engagements with no material reliance on any individual revenue source and a diversified geographic footprint in high growth markets.

Strategic growth focus

The Company 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 export our footprint into new markets in Asia. During 2012, the Company continued to make excellent progress on these strategic goals.

	2012 $million	2011 $million	Change
Total revenue (including share of net profits from jointly controlled entities excluding interest revenue)	362.5	324.3	
Underlying earnings before interest, tax, depreciation and amortisation	89.5	81.5	
Net profit after tax before elimination of non-controlling interests	54.5	51.2	
Non-controlling interests	(10.5)	(9.9)	
Underlying profit	**44.0**	**41.3**	**6.5%**
Significant items - gains	1.3	-	
Significant items - losses	(1.3)	(0.4)	
Statutory profit	**44.0**	**40.9**	**7.5%**
Cash	43.6	27.1	
Debt	136.2	111.9	
Net debt	92.6	84.8	
	Cents per Share	**Cents per Share**	
Diluted EPS - statutory profit	12.03	11.42	
Diluted EPS - underlying profit	12.03	11.54	

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:

	2012 $million	2011 $million	Change
Statutory profit	**44.0**	**40.9**	**7.5%**
Acquisition costs	1.3	0.4	
Non-cash accounting gains	(1.3)	-	
Underlying profit	**44.0**	**41.3**	**6.5%**

Cash and gross debt

As at 31 December 2012, the Group's cash and gross debt balances were $43.6 million (2011: $27.1 million) and $136.2 million (2011: $111.9 million), respectively.

Operating cash flow for the year was strong and after completion payments for new acquisitions, the Group's net drawn debt position increased to $92.6 million at 31 December 2012 (2011: $84.8 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 $45.9 million as at 31 December 2012 (2011: $21.9 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 signed extended banking facilities in July 2012, increasing total debt facilities by $50 million. The Group has access to debt facilities totalling $212.9 million (of which $136.2 million is drawn). Of these facilities, $2.9 million matures in June 2013, $85 million in January 2014, $75 million in January 2015 and $50 million in July 2015.

During the year, the Company issued 41,030,161 shares at a price of $0.97 per share, prior to the costs incurred as of the capital raising. Net proceeds from the capital raising totalled $38.5 million.

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 2011	5.0	18.1	100%
Interim 2012	3.3	12.0	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 $20.2 million (5.0 cents per fully paid ordinary share) payable on 19 April 2013.

The full year dividend represents a payout ratio of 69% 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% and 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.

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	–	–
Paul Richardson	9	11	–	–	–	–
Ian Tsicalas	11	11	3	3	4	4
Graham Cubbin	11	11	3	3	4	4
Michael Connaghan	11	11	–	–	–	–
Peter Cullinane	11	11	–	–	–	–
Kim Anderson	11	11	–	–	4	4

* Reflects the number of meetings the Director was eligible to attend during the time the Director held office during the 2012 year.

Directors' Report (Continued)

	Balance as at 1-Jan-12	Acquisitions	Disposals	Balance as at 31-Dec-12	Post year-end acquisitions	Post year-end disposals	Post year-end balance
Ordinary shares							
Robert Mactier	562,500	15,464	–	**577,964**	–	–	**577,964**
Paul Richardson	–	–	–	**–**	–	–	**–**
Ian Tsicalas	50,000	15,463	–	**65,463**	–	–	**65,463**
Graham Cubbin	100,000	–	–	**100,000**	–	–	**100,000**
Michael Connaghan	838,870	15,463	(800,000)	**54,333**	942,750	(997,083)	**–**
Peter Cullinane	34,500	–	–	**34,500**	–	–	**34,500**
Kim Anderson	–	–	–	**–**	–	–	**–**
Total	**1,585,870**	**46,390**	**(800,000)**	**832,260**	**942,750**	**(997,083)**	**777,927**

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)

Kim Anderson

Graham Cubbin.

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.

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 JM Stanley on behalf of Deloitte Touche Tohmatsu, the auditor of STW Communications Group Limited, as reproduced on page 36.

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 accompanies on page 37 and forms part of this Directors' Report.

Signed in accordance with a resolution of the Directors:

Robert Mactier
Chairman
28 March 2013

Michael Connaghan
Chief Executive Officer

Auditor's Independence Declaration

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

28 March 2013

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 2012, 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

JM Stanley
Partner
Chartered Accountants
Sydney, 28 March 2013

Remuneration Report

1. REMUNERATION REPORT

This Remuneration Report includes details, and an explanation, of the remuneration strategies for key management personnel ("KMP") 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 Remuneration and Nominations Committee Charter which prescribes the responsibilities, composition and meeting rules of the Committee, which is available on the Company's website, www.stwgroup.com.au. 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 independent. Mr Ian Tsicalas is the Chair of the Committee.

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 the light of those goals and objectives, and 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 2012, the Committee received advice from Guerdon Associates to assist in setting the base pay for the CEO and his direct reports. In January 2012, the Committee received advice from Mercer relating to the calculation of total shareholder returns relating to the share-based compensation.

3. REMUNERATION STRATEGY

The Company's remuneration objective is to attract, motivate and retain employees to ensure delivery of the business strategy. The Company's remuneration strategy is designed to ensure that remuneration is market competitive, performance based and aligned with shareholders' interests.

Remuneration Report (Continued)

3. REMUNERATION STRATEGY (CONTINUED)

DIRECTORS' REMUNERATION SUMMARY

	Elements of remuneration	Non-executive Directors	Chief Executive Officer	Other senior executives	Discussion in Remuneration Report
Fixed remuneration	Fees	Y	N	N	Page 39
	Salaries	N	Y	Y	Pages 40-42
	Superannuation and other benefits	Y	Y	Y	Pages 40-42
At-risk remuneration	Short-term incentives	N	Y	Y	Pages 40-42
	Long-term incentives	N	Y	Y	Pages 40-42
Post employment	Notice periods and termination payments	N	Y	Y	Page 43

REMUNERATION STRATEGY

GUIDING PRINCIPLES

Market competitive	Performance based	Aligned with shareholders
• Designed to attract and retain employees with required capabilities and experience. • Independent review of remuneration benchmarked data for KMP by STW Group's remuneration advisor Guerdon Associates. • A balance between fixed, short-term and long-term remuneration appropriate to individual roles.	• Designed to motivate employees and executives to pursue STW Group's long-term growth and success. • Provide appropriate reward for superior individual performance and STW Group performance, aligning performance and reward outcomes.	• Long-term incentive vesting subject to satisfying shareholder return performance hurdle as well as time-based employment conditions. • Deferred remuneration of the CEO subject to forfeiture if time-based employment conditions are not met. • Remuneration processes and governance to ensure that remuneration arrangements do not lead to excessive risk taking.

4. GROUP PERFORMANCE

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

	2012	2011	2010	2009	2008
* Underlying NPAT ($million)	44.0	41.3	38.7	33.1	39.1
* Underlying earnings per share (cents per share)	12.0	11.5	10.8	11.1	20.2
Dividends per share (cents per share)	8.3	8.0	6.5	3.5	8.0
Share price (year end)	$1.11	$0.84	$1.06	$0.74	$0.72
* Total shareholder return ("TSR") (% per annum)	42.0	(13.2)	52.0	7.6	(64.9)

* Underlying NPAT and underlying earnings per share represent the underlying trends in the Group's business performance and exclude one-off gains and losses on sale of investments and amortisation.

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

5. 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.

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.

Directors' fee pool

The Australian Securities Exchange ("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.

Director fee framework

The Board periodically reviews the Directors' fee framework. Under the current fee framework, Non-executive Directors are remunerated by way of a base fee, with additional fees paid to the Chairmen of Committees.

The fees detailed below are inclusive of superannuation contributions required by Superannuation Guarantee legislation.

Board/Committee	Role	2012	2011
Board	Chairman	$185,000	$185,000
	Member	$85,000	$85,000
Audit and Risk Committee	Chairman	$15,000	$15,000
Remuneration and Nominations Committee	Chairman	$15,000	$15,000

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.

Non-executive Directors do not receive shares, options or share rights as part of their remuneration and do not participate in any equity based incentive plans.

Remuneration Report (Continued)

6. REMUNERATION OF THE CHIEF EXECUTIVE OFFICER

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.

The remuneration level and remuneration structure have been set by the Remuneration and Nominations Committee. The Committee has received independent advice from Guerdon Associates in November 2012 benchmarking the CEO's salary against companies of comparable market capitalisation, revenue size and industry. The final remuneration is determined by the Remuneration and Nominations Committee using the independent benchmarking data and taking into account the performance of the CEO.

2011 and 2012 years

i) Fixed remuneration

Mr Connaghan's fixed remuneration for the 2011 and 2012 years was $850,000 per annum. This fixed remuneration represents total fixed cost to the Company including superannuation and other benefits as set out below.

ii) Short-term incentive plan

75% of the maximum annual entitlement payable under the short-term incentive plan is based on achieving a net profit after tax (NPAT) target. The NPAT target is determined based on the Company's budget. 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 have been finalised.

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.

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 his employment 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.

Following the end of the 2012 year, the Board determined that Mr Connaghan was entitled to 45% of the maximum annual entitlement payable under the short-term incentive plan. Mr Connaghan achieved 33% of the financial component of the short-term incentive plan and 80% relating to the non-financial component.

iii) Long-term incentive plan

For the 2011 year, Mr Connaghan was granted 178,125 shares in the Company's executive share plan that will vest subject to the achievement of performance conditions.

For the 2012 year, Mr Connaghan was 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 10 - Share-based compensation.

2013 year

The Board set new remuneration arrangements that will apply to Mr Connaghan for the 2013 year.

i) Fixed remuneration

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.

ii) 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.

75% of the maximum annual entitlement payable under the short-term incentive plan is based on achieving a NPAT target. The NPAT target is determined based on the Company's budget. Mr Connaghan is rewarded for performance between 100% and 108% of the NPAT target (at which point the maximum entitlement is received).

There are no other changes to the terms and conditions relating to the 2013 short-term incentive plan.

iii) Long-term incentive plan

Subject to shareholder approval, Mr Connaghan is to be granted 412,000 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 10 - Share-based compensation.

7. 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.

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. The Committee has received independent advice from Guerdon Associates in November 2012, benchmarking senior executives' salary against companies of comparable market capitalisation, revenue size and industry. The final remuneration is determined by the Remuneration and Nominations Committee using the independent benchmarking data and taking into account the performance of the individual executive.

Fixed remuneration

The objective of fixed remuneration is to provide a base level of remuneration which is appropriate to the executive's position 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 2012.

Remuneration Report (Continued)

7. EXECUTIVE REMUNERATION (CONTINUED)

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.

– An executive will receive 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 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.

The table below shows the short-term incentive opportunity levels, together with the actual payout or forfeited proportions for 2011 and 2012.

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

Following the end of the 2012 year, the Board determined that Mr Savage and Mr Aviani were entitled to 50% of the maximum annual entitlement payable under the short-term incentive plan. They achieved 33% of the financial component of the short-term incentive plan and 100% relating to the non-financial component.

Following the end of the 2012 year, the Board determined that Mr Connaghan was entitled to 45% of the maximum annual entitlement payable under the short-term incentive plan. Mr Connaghan achieved 33% of the financial component of the short-term incentive plan and 80% relating to the non-financial component.

Long-term incentives - executive share plan

Long-term incentives are provided by the Company through an executive share plan 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. Details of the long-term incentives are outlined in Section 10 – Share-based compensation.

Short-term incentive ("STI") payment outcomes

KMP (excluding Non-executive Directors)	Year	Maximum STI ($)	Maximum STI as % of fixed remuneration	Actual STI as a % of maximum STI	% of maximum STI payment forfeited (2)	Actual STI payment $ (3)
Michael Connaghan (1)	2012	500,000	59%	45%	55%	225,000
	2011	500,000	59%	78%	22%	387,500
Chris Savage	2012	150,000	23%	50%	50%	75,000
	2011	150,000	25%	78%	22%	116,250
Lukas Aviani	2012	125,000	33%	50%	50%	63,000
	2011	110,000	33%	78%	22%	85,250

(1) Michael Connaghan receives half of his achieved STI in cash and the remaining payment is received in shares and deferred for a period of two years.

(2) Where the actual STI payment is less than the maximum potential, the difference is forfeited. It does not become payable in subsequent years. The minimum STI is nil if no performance conditions are met.

(3) The 2011 STI constitutes a cash bonus granted for performance during the year ended 31 December 2011 and paid in February 2012. The 2012 STI constitutes a cash bonus granted for performance during the year ended 31 December 2012 and paid in February 2013.

8. CONTRACTUAL ARRANGEMENTS – CHIEF EXECUTIVE OFFICER AND OTHER SENIOR EXECUTIVES

The terms of employment of the CEO are set out in Section 6 – Remuneration of the Chief Executive Officer 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 executive share plan. Key non-financial terms in the service agreements are set out below.

Remuneration details are set out in Section 9 – Details of remuneration.

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 wilful 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 executive remuneration are set out below:

SUMMARY OF EXECUTIVE SERVICE AGREEMENTS

Key provisions of the agreements relating to senior excutive remuneration as at 31 December 2012 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 (NZ)
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
Base Salary	2011 - $850,000 2012 - $850,000	2011 - $600,000 2012 - $660,000	2011 - $330,000 2012 - $375,000	2011 - NZ$750,000 2012 - NZ$712,500
Short-term incentive plan (maximum entitlement)	2011 - $500,000 2012 - $500,000 50% paid in Company shares and deferred for a period of two years.	2011 - $150,000 2012 - $150,000	2011 - $110,000 2012 - $125,000	- -
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	12 months

Remuneration Report (Continued)

9. DETAILS OF REMUNERATION

Details of the remuneration of Directors and other key management personnel of the STW Group are set out in the following tables.

Key management personnel

The Directors of STW Communications Group Limited during the year ended 31 December 2012 were:

Name	Current position
Non-executive Directors	
Robert Mactier	Independent Chairman
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	Chief Executive Officer 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 2012 were:

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

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 2012 year are as follows:

TABLE 1: KMP REMUNERATION FOR THE YEAR ENDED 31 DECEMBER 2012

	Short-term employment benefits		Post-employment benefits (a)	Share-based payments (b)		
	Cash salary and fees $	Cash profit sharing and other bonuses $	Superannuation $	Value of rights granted $	Total $	At risk remuneration %
Non-executive Directors						
Robert Mactier	169,725	–	15,275	–	185,000	–
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	805,892	387,500	15,775	354,865	1,564,032	47%
Peter Cullinane	563,086	–	–	–	563,086	–
Director remuneration for the Consolidated Entity and parent entity	**1,800,171**	**387,500**	**54,582**	**354,865**	**2,597,118**	
Other KMP						
Chris Savage	644,225	116,250	15,775	166,456	942,706	30%
Lukas Aviani	346,725	85,250	15,775	78,230	525,980	31%
Total non-Director KMP remuneration	**990,950**	**201,500**	**31,550**	**244,686**	**1,468,686**	
Grand total	**2,791,121**	**589,000**	**86,132**	**599,551**	**4,065,804**	

(a) There were no additional post-employment benefits provided during the year ended 31 December 2012.

(b) Share-based payments represent the amortised cost of the fair value of performance shares issued.

(c) In line with the Corporations Act 2001, section 300 (1)(c), the 5 relevant group executives who received the highest remuneration for the year are no longer required to be disclosed.

Remuneration Report (Continued)

9. DETAILS OF REMUNERATION (CONTINUED)

Details of remuneration provided to Directors and senior executives and executives of the Consolidated Entity and the Company for the 2011 year are as follows:

TABLE 2: KMP AND EXECUTIVE REMUNERATION FOR THE YEAR ENDED 31 DECEMBER 2011

	Short-term employment benefits		Post-employment Benefits (a)	Share-based payments (b)		
	Cash salary and fees $	Cash profit sharing and other bonuses $	Superannuation $	Value of rights granted $	Total $	At risk remuneration %
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	204,294	1,354,294	37%
Peter Cullinane	622,829	–	4,679	–	627,508	–
Director remuneration for the Consolidated Entity and parent entity	**1,923,139**	**300,000**	**62,401**	**204,294**	**2,489,834**	
Other KMP						
Chris Savage	584,225	150,000	15,775	127,053	877,053	32%
Lukas Aviani	314,225	100,000	15,775	52,165	482,165	32%
Total non-Director KMP remuneration	**898,450**	**250,000**	**31,550**	**179,218**	**1,359,218**	
Executives of the Consolidated Entity						
Neil Lawrence	734,225	60,000	15,775	–	810,000	7%
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**	**383,512**	**5,659,052**	

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

(b) Share-based payments represent the amortised cost of the fair value of performance shares issued.

10. SHARE-BASED COMPENSATION

Executive share plan ("ESP")

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 STW Executive Share Plan Trust ("Trust") is an employee share scheme trust established to satisfy the Company's obligations arising from long-term share-based payments awards and the deferral of short-term incentive plan for Michael Connaghan.

Shares are acquired by the Trust to mitigate dilution and provide a mechanism to hedge the cash cost of acquiring shares in the future to satisfy vested awards. As at 31 December 2012, 6,184,833 (2011: 6,652,333) performance shares in the Company have been issued to the Trust. The Trust holds the performance shares and all rights and entitlements attaching to the performance shares on the executives' behalf.

Shares held within the Trust earn income in the form of dividends. Any undistributed income held by the Trust at year end is taxed at the top marginal tax rate (which exceeds the company tax rate) and carries no franking credits. The trustee may at its discretion, distribute net income to beneficiaries of the Trust. Any distributions made to participants are taken into account when considering overall remuneration outcomes each year.

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	
	2012	2011	2012	2011
Director				
Michael Connaghan	356,250	178,125	942,750	-
Other KMP				
Chris Savage	225,625	178,125	471,375	99,000
Lukas Aviani	118,750	95,000	219,975	-

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 is independently determined based on the market value of the shares at grant date.

Remuneration Report (Continued)

10. SHARE-BASED COMPENSATION (CONTINUED)

EXECUTIVE SHARE PLAN OPERATION

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

Details of the performance shares issued to specified senior executives are outlined in the tables on pages 47 and 118.

Performance shares	The trustee, CPU Plan Managers Pty Limited, holds the performance shares and all rights and entitlements attaching to the shares on the executives' 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 satisfied.

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 compounded 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 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.

Remuneration Report (Continued)

10. SHARE-BASED COMPENSATION (CONTINUED)

PERFORMANCE CONDITIONS (CONTINUED)

SHARES GRANTED TO EXECUTIVES – 2009 BASE PLAN (CONTINUED)

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

The 2009 Base Plan has been completed with 467,500 shares vesting and being issued to executives in March 2012. The EPS performance condition was not achieved and 88% of the TSR performance condition was achieved. Any performance shares that did not vest have been 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 compounded EPS Growth Rate of between 5% and above 10%.

Performance condition - No. 2 - TSR performance condition

Vesting of 25% of the performance shares granted to the executives depends on 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

The 2010 Base Plan has been completed with 3,087,000 shares vesting and being issued to executives in February 2013. 100% of the EPS performance condition was achieved and 92% of the TSR performance condition was achieved. Any performance shares that did not vest have been forfeited.

Remuneration Report (Continued)

10. 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 above 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

The 2010 Overperformance Plan has been completed with 212,625 shares vesting and being issued to executives in February 2013. 36% of the EPS performance condition was achieved. Any performance shares that did not vest have been 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 above 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)

10. 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 above 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	Nil	Nil
3% CAGR	10%	7.5%
4% CAGR	20%	15%
5% CAGR	30%	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 above 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.

Remuneration Report (Continued)

10. SHARE-BASED COMPENSATION (CONTINUED)

PERFORMANCE CONDITIONS (CONTINUED)

SHARES GRANTED TO EXECUTIVES – 2012 BASE PLAN (CONTINUED)

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.

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 above 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.

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 2012. 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.

Management responsibility

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 37 to 57.

A performance assessment for senior executives last took place in December 2012.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

Board structure

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 30 and 31 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.

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
Paul Richardson	Non-executive Director	NO	Associated directly with a substantial shareholder – Cavendish Square Holdings BV (WPP plc)	1999
Ian Tsicalas	Non-executive Director	YES	–	2007
Graham Cubbin	Non-executive Director	YES	–	2008
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.

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.

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 33.

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.

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.

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.

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.

Commitment

The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 31 December 2012, and the number of meetings attended by each Director, is disclosed on page 33.

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 30 and 31 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.

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.

Review of Board performance

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 2012.

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
Graham Cubbin.

Details of Directors' attendance at meetings throughout the period are set out in the Directors' Report on page 33.

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 Board is committed to promoting a corporate culture that embraces diversity across the organisation.

The Remuneration and Nominations Committee is responsible for the regular review of and reporting on the relative proportion of women employed at all levels of the Company and regular review of and reporting on the measurable objectives set on an annual basis.

The objective of the Board in relation to diversity is to continue to identify, and promote the development of, talented women.

In satisfaction of this objective, the following initiatives implemented and outcome achieved throughout the year:

– the Company launched the STW Women in Leadership Group during 2012, with the objective to address key female-centric development areas and devise initiatives to help all STW Group companies recruit and retain the best female talent in our industry;

– the Company offers a female mentoring program, launched in March 2013, an initiative of the STW Women in Leadership Group. The program provides selected female employees with the opportunity to learn from senior managers within the Group, and ensures they have the support, tools and networks needed to reach more senior positions right across the STW Group; and

– the STW High Performer program fast tracks the careers of future stars of the business. The program allows for the identification and development of employees with the ability, commitment and motivation to rise to senior positions. Half of the program intake in 2012 were female.

Gender diversity outcomes

In 2012, the Group maintained the proportion of female employees occupying management and leadership positions. However, our efforts are focused on ensuring the broader environment to support diversity, rather than achieving set quotas or targets.

The levels of gender diversity as at 31 December 2012 are set out below:

Corporate Governance Statement (Continued)

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING (CONTINUED)

Gender diversity outcomes

Gender diversity	31 Dec 12 Male	31 Dec 11 Male	31 Dec 12 Female	31 Dec 11 Female
Total employees	46%	46%	54%	54%
Senior managers	65%	62%	35%	38%
Board	86%	86%	14%	14%

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 30 and 31 in this Annual Report.

The Committee meets at least three times per year, and during 2012 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 half-year financial report, the full-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 and the scope and quality of the audit and assess performance; and

– report to the Board on matters relevant to the Committee's role and responsibilities.

In fulfilling its responsibilities, the Audit and Risk Committee:

– receives regular reports from management and external auditors;

– meets with the external auditors at least twice a year, or more frequently if necessary;

– reviews the processes the Chief Executive Officer and Chief Financial Officer have in place to support their certifications to the Board;

– reviews any significant disagreements between the auditors and management irrespective of whether they have been resolved;

– meets 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.

Assurance

In respect of the financial report for the year ended 31 December 2012, the Board has received formal assurance from the Chief Executive Officer and Chief Financial Officer that:

– The Group's financial statements present a true and fair view of the Group's financial position and results for the period; and

– The risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively.

This 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.

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.

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 half-yearly and annual 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. Half-yearly and annual 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.

Corporate Governance Statement (Continued)

PRINCIPLE 7: RECOGNISE AND MANAGE RISK (CONTINUED)

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 37 to 57.

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 37 to 57.

Income Statement For The Year Ended 31 December 12

	Notes	Consolidated Entity 2012 $'000	2011 $'000
Continuing operations			
Revenue	4(a)	348,561	312,969
Other income	4(b)	5,606	3,395
Share of net profits of jointly controlled entities accounted for using the equity method	4(c)	11,197	10,144
		365,364	**326,508**
Employee benefits expense		(212,537)	(190,714)
Occupancy costs		(19,663)	(16,088)
Depreciation expense	5(a)	(7,083)	(5,807)
Amortisation expense	5(a)	(1,478)	(738)
Travel, training and other personal costs		(10,706)	(9,710)
Research, new business and other commercial costs		(6,665)	(5,972)
Office and administration costs		(14,361)	(13,145)
Compliance, audit and listing costs		(9,079)	(7,529)
Finance costs	5(b)	(13,932)	(11,131)
Profit before income tax		**69,860**	**65,674**
Income tax expense	6	(15,392)	(14,911)
Net profit		**54,468**	**50,763**
Net profit attributable to:			
– Non-controlling interests		10,501	9,874
– Members of the parent entity		**43,967**	**40,889**
		Cents	**Cents**
Earnings per share:			
Basic earnings per share	7	**12.14**	**11.44**
Diluted earnings per share	7	**12.03**	**11.42**

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

Statement Of Comprehensive Income For The Year Ended 31 December 12

	Consolidated Entity	
	2012 $'000	2011 $'000
Net profit	**54,468**	**50,763**
Other comprehensive income		
Transactions with non-controlling interest (a)	5,149	–
Exchange gain arising on translation of foreign operations	2,976	448
Gain/(loss) on cash flow hedges taken to equity	186	(1,457)
Income tax (expense)/benefit relating to components of other comprehensive income	(56)	437
Other comprehensive income (net of tax)	8,255	(572)
Total comprehensive income	**62,723**	**50,191**
Total comprehensive income attributable to:		
– Non-controlling interests	10,693	10,158
– Members of the parent entity	52,030	40,033

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

(a) During the year ended 31 December 2012, STW Media Services Pty Limited ("SMS") disposed of a 33.33% equity interest in DT Digital Pty Limited. The proceeds received by SMS were $5.1 million. The gain on sale as a result of this transaction was $3.1 million (less the associated income tax expense).

Balance Sheet
As At 31 December 12

		Consolidated Entity	
	Notes	2012 $'000	2011 $'000
Current assets			
Cash and cash equivalents	9	43,641	27,141
Trade and other receivables	10	154,458	163,087
Other current assets	11	4,975	3,354
Total current assets		**203,074**	**193,582**
Non-current assets			
Other receivables	12	14,149	12,556
Investments accounted for using the equity method	13	95,373	97,033
Other financial assets	14	500	395
Plant and equipment	15	25,495	20,826
Deferred tax assets	16	11,207	9,990
Intangible assets	17	495,533	409,912
Other non-current assets	18	610	441
Total non-current assets		**642,867**	**551,153**
Total assets		**845,941**	**744,735**
Current liabilities			
Trade and other payables	19	182,271	180,940
Borrowings	20	3,208	2,740
Current tax liabilities	6	9,316	12,437
Provisions	21	7,089	6,066
Total current liabilities		**201,884**	**202,183**
Non-current liabilities			
Other payables	22	37,782	28,173
Borrowings	23	133,009	109,133
Deferred tax liabilities	24	6,756	6,498
Provisions	25	3,075	2,444
Total non-current liabilities		**180,622**	**146,248**
Total liabilities		**382,506**	**348,431**
Net assets		**463,435**	**396,304**
Equity			
Issued capital	26	313,829	274,895
Reserves	27	18,213	9,269
Retained earnings	28	90,649	76,801
Equity attributable to members of the parent entity		**422,691**	**360,965**
Non-controlling interests		40,744	35,339
Total equity		**463,435**	**396,304**

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

Statement Of Changes In Equity For The Year Ended 31 December 12

	Notes	Attributable to Equity Holders of the Consolidated Entity									
		Issued Capital $'000	Equity Settled Share-based Payment Reserve* $'000	Transactions With Non-controlling Interests 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 2011		**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 buy-out of non-controlling interests		–	–	–	–	–	–	–	–	(2,651)	(2,651)
Issue of executive share plan shares	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**
Net profit		–	–	–	–	–	–	43,967	43,967	10,501	54,468
Other comprehensive income		–	–	5,149	–	130	2,784	–	8,063	192	8,255
Total comprehensive income		**–**	**–**	**5,149**	**–**	**130**	**2,784**	**43,967**	**52,030**	**10,693**	**62,723**
Non-controlling interests on acquisition of controlled entities and buy-out of non-controlling interests		–	–	–	–	–	–	–	–	1,216	1,216
Issue of executive share plan shares	26	402	(402)	–	–	–	–	–	–	–	–
Share issue	26	38,532	–	–	–	–	–	–	38,532	–	38,532
Cost of share-based payments	27	–	1,283	–	–	–	–	–	1,283	–	1,283
Equity dividends provided for or paid	8	–	–	–	–	–	–	(30,119)	(30,119)	(6,504)	(36,623)
At 31 December 2012		**313,829**	**2,153**	**5,149**	**16,275**	**(1,076)**	**(4,288)**	**90,649**	**422,691**	**40,744**	**463,435**

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 transactions with non-controlling interests reserve relates to transactions with non-controlling interests that do not result in a loss of control.

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 12

	Notes	Consolidated Entity 2012 $'000	2011 $'000
Cash flows from operating activities			
Receipts from customers		1,023,579	957,129
Payments to suppliers and employees		(949,232)	(901,344)
Net cash flows from operations		**74,347**	**55,785**
Interest received		2,896	1,587
Interest and other costs of finance paid		(12,656)	(9,818)
Dividends and trust distributions received from jointly controlled entities		7,659	5,433
Income taxes paid		(19,665)	(20,394)
Net cash flows from operating activities	9	**52,581**	**32,593**
Cash flows from investing activities			
Payments for purchase of newly controlled entities, net of cash acquired	33(c)	(45,677)	(2,462)
Payments for purchase of jointly controlled entities		(2,543)	(693)
Payments for purchase of plant and equipment		(8,565)	(6,546)
Proceeds from sale of controlled and jointly controlled entities		5,262	–
Earnout payments on controlled entities		(4,289)	(41,068)
Loan (to)/from jointly controlled entities		(5,416)	8,328
Net cash flows used in investing activities		**(61,228)**	**(42,441)**
Cash flows from financing activities			
Proceeds from borrowings		237,109	228,624
Repayments of borrowings		(213,977)	(194,000)
Repayments of finance lease liabilities		–	(13)
Proceeds from issue of shares	26	38,532	–
Payments for share buy-backs	26	–	(1,291)
Equity holder dividends paid	8	(30,119)	(26,262)
Dividends paid to non-controlling interests		(6,504)	(13,869)
Net cash flows from/(used in) financing activities		**25,041**	**(6,811)**
Net increase/(decrease) in cash held		**16,394**	**(16,659)**
Effects of exchange rate changes on cash and cash equivalents		106	31
Cash at the beginning of the year		27,141	43,769
Cash at the end of the year	9	**43,641**	**27,141**

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

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Notes To The Financial Statements For The Year Ended 31 December 12

Notes To The Financial Statements For The Year Ended 31 December 12

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report of STW Communications Group Limited for the year ended 31 December 2012 was authorised for issue in accordance with a resolution of the Directors, dated 28 March 2013.

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 (December 2009) AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9	1 January 2015	31 December 2015
AASB 9 Financial Instruments (December 2010) AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)	1 January 2015	31 December 2015
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 AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13	1 January 2013	31 December 2013
AASB 119 Employee Benefits (2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (2011)	1 January 2013	31 December 2013
AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements	1 July 2013	31 December 2014
AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards.	1 January 2013	31 December 2013
AASB 2012-2 Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities	1 January 2013	31 December 2013
AASB 2012-3 Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities	1 January 2014	31 December 2014
AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle	1 January 2013	31 December 2013
AASB 2012-6 Amendments to Australian Accounting Standards arising - Mandatory Effective Date of AASB 9 and Transition Disclosures	1 January 2015	31 December 2015
AASB 2012-10 Amendments to Australian Accounting Standards - Transition Guidance and Other Amendments	1 January 2013	31 December 2013

Notes To The Financial Statements For The Year Ended 31 December 12 (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 2012 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.

(iii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amount of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

(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 income statement and statement of comprehensive income.

(iii) Group entities

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

– income and expenses for each 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 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 earnt.

(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 earnt.

(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 12 (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 the 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 the 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 'Business Combinations'.

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: Recognition and Measurement'. 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 remeasurement.

(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 impairment. 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 by reducing the carrying amount directly. An allowance account (provision for impairment of trade 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 impairment allowance 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 impairment allowance is recognised in the profit or loss.

Notes To The Financial Statements For The Year Ended 31 December 12 (Continued)

(M) INVESTMENTS AND OTHER FINANCIAL ASSETS

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

(i) Effective interest method

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

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

(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 the 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 the 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 the 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 the profit or loss and is not reversed in a subsequent period.

(ii) Brand names

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.

Notes To The Financial Statements For The Year Ended 31 December 12 (Continued)

(Q) TRADE AND OTHER PAYABLES

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

(R) BORROWINGS

Borrowings are initially recognised at fair value, net of transaction costs incurred. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the 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 37 to 57.

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 before or at 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 the profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the 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 the profit or loss as part of other expenses or other income.

Amounts deferred in equity are recycled in the profit or loss in the periods when the hedged item is recognised in the 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 the 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 the profit or loss.

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 37 to 57.

Notes To The Financial Statements For The Year Ended 31 December 12 (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, New Zealand and other international 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 2012 and 31 December 2011 which has been restated to reflect the current business segment presentation:

	Advertising, Production and Media		Diversified Communications		Holding Company and Unallocated		Consolidated Entity	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Revenue from services rendered	181,741	168,738	163,239	141,832	685	164	345,665	310,734
Share of net profits of jointly controlled entities	8,569	6,380	2,628	3,764	–	–	11,197	10,144
Other income	1,732	2,233	643	516	3,231	646	5,606	3,395
Segment revenue	**192,042**	**177,351**	**166,510**	**146,112**	**3,916**	**810**	**362,468**	**324,273**
Segment result	**58,446**	**54,110**	**40,128**	**38,834**	**(9,117)**	**(11,829)**	**89,457**	**81,115**
Depreciation and amortisation expense							(8,561)	(6,545)
Net interest							(11,036)	(8,896)
Profit before income tax							**69,860**	**65,674**
Income tax expense							(15,392)	(14,911)
Net profit							**54,468**	**50,763**
Net profit attributable to:								
– Non-controlling interests							10,501	9,874
– Members of the parent entity							**43,967**	**40,889**

Notes To The Financial Statements For The Year Ended 31 December 12 (Continued)

NOTE 4. REVENUE

		Consolidated Entity	
	Notes	2012 $'000	2011 $'000
(a) Revenue			
Services rendered		345,665	310,734
Interest income			
Jointly controlled entities		222	112
Other entities		2,674	2,123
Total interest income		2,896	2,235
Total revenue		**348,561**	**312,969**
(b) Other income			
Dividends from listed investments		13	15
Other revenue		5,593	3,380
Total other income		**5,606**	**3,395**
(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)	11,197	10,144

NOTE 5. EXPENSES

	Consolidated Entity	
	2012 $'000	2011 $'000
Profit before income tax includes the following specific expenses/(gains):		
(a) Depreciation and amortisation expense		
Depreciation and amortisation of non-current assets:		
Plant and equipment	7,083	5,807
Total depreciation of non-current assets	7,083	5,807
Amortisation of non-current assets:		
Intangible assets	1,478	738
Total amortisation of non-current assets	1,478	738
Total depreciation and amortisation expense	**8,561**	**6,545**
(b) Finance costs		
Interest expense – deferred consideration payable	1,242	1,312
Interest expense – other parties	12,690	9,819
Total finance costs	**13,932**	**11,131**
(c) Other expenses/(gains)		
Gain on fair value adjustment on non-current liability (deferred cash settlement)	(1,926)	(610)
Acquisition related costs	1,872	400
Loss on disposal of plant and equipment	24	112
Foreign exchange loss	170	221
Superannuation contributions	10,593	9,910
(d) Operating lease rental		
Minimum lease payments	17,348	14,312

Notes To The Financial Statements For The Year Ended 31 December 12 (Continued)

NOTE 6. INCOME TAX

	Consolidated Entity	
	2012 $'000	2011 $'000
(a) Income tax expense		
Current tax	16,363	16,104
Deferred tax	(1,015)	(923)
Adjustments for current tax of prior periods	44	(270)
Income tax expense reported in the income statement	**15,392**	**14,911**
(b) Current tax assets and liabilities included in the financial statements		
Current tax liabilities	(9,316)	(12,437)
	(9,316)	**(12,437)**
(c) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	**69,860**	**65,674**
Tax at the Australian tax rate of 30% (2011: 30%)	20,958	19,702
Adjustments for current tax of prior periods	44	(270)
Tax adjustments resulting from equity accounting	(3,359)	(3,043)
Other items allowable for income tax purposes	(2,581)	(1,610)
Amortisation of intangible assets	330	132
Income tax expense reported in the income statement	**15,392**	**14,911**
(d) Tax expense/(benefit) relating to components of other comprehensive income		
Cash flow hedges (refer to Note 27)	56	(437)

(e) Tax losses

The Group has tax losses arising in Australia of $4,003,000 on revenue account and $3,009,719 on capital account (2011: $3,467,000 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 subsidiaries, and no such disposal is expected in the foreseeable future.

At 31 December 2012, there is no recognised or unrecognised deferred income tax liability (2011: $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	
	2012 $'000	**2011 $'000**
Net profit attributable to ordinary equity holders of the Company from continuing operations for basic earnings per share	**43,967**	**40,889**
Effect of dilution:		
Dilutive adjustments to net profit	–	–
Net profit attributable to ordinary equity holders of the Company for diluted earnings per share	**43,967**	**40,889**
	Number	**Number**
Weighted average number of ordinary shares for basic earnings per share	362,202,129	357,432,194
Impact of ESP shares where earnings per share growth performance targets have been met	3,299,625	467,500
Weighted average number of ordinary shares for diluted earnings per share	**365,501,754**	**357,899,694**
	Cents	**Cents**
Earnings per share for profit from continuing operations attributable to ordinary equity holders of the Company		
Basic earnings per share	12.14	11.44
Diluted earnings per share	12.03	11.42

Notes To The Financial Statements For The Year Ended 31 December 12 (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	
	2012 $'000	**2011 $'000**
Declared and paid during the year		
Dividends on ordinary shares:		
Final franked dividend for 2011: 5.0 cents per share (2010: 4.2 cents per share)	18,139	15,301
Interim franked dividend for 2012: 3.3 cents per share (2011: 3.0 cents per share)	11,972	10,929
Dividends paid pursuant to the ESP	8	32
	30,119	**26,262**
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 (2011: 5.0 cents) per fully paid ordinary share, fully franked at 30%. The aggregate amount of the proposed final dividend payable on 19 April 2013 (2011: 20 April 2012), out of retained earnings, but not recognised as a liability, is:	**20,191**	**18,140**
Franking credit balance The franked portions of dividends recommended after 31 December 2012 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 2013.		
Franking credits available for subsequent years based upon a tax rate of 30%	**22,451**	**19,345**
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	**8,653**	**7,774**

NOTE 9. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	Notes	Consolidated Entity 2012 $'000	Consolidated Entity 2011 $'000
Cash on hand		247	80
Cash at bank		39,067	23,781
Cash on deposit		4,327	3,280
		43,641	**27,141**
Reconciliation of profit for the year to net cash flows from operating activities			
Profit for the year		54,468	50,763
Share of jointly controlled entities' net profits, net of dividends and trust distributions received		(3,551)	(4,726)
Depreciation and amortisation expense		8,561	6,545
ESP expense non-cash		1,283	747
Interest expense on fair value adjustment on non-current liability (deferred cash settlement)		1,242	1,312
Loss on disposal of non-current assets	5(c)	24	112
Gain on fair value adjustment to non-current liability (deferred cash settlement)		(2,426)	(610)
Changes in operating assets and liabilities, net of effects of purchase and disposal of controlled entities during the financial year:			
Decrease/(increase) in trade and other receivables		28,144	(7,997)
(Increase)/decrease in other non-current receivables		(325)	2,246
Increase in deferred tax assets		(482)	(1,094)
Decrease in trade and other payables		(27,213)	(8,479)
Decrease in current income tax payable		(3,994)	(3,738)
Decrease in provisions		(4,581)	(3,184)
Increase in other liabilities		1,431	696
Net cash flows from operating activities		**52,581**	**32,593**

Notes To The Financial Statements For The Year Ended 31 December 12 (Continued)

NOTE 10. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

	Consolidated Entity	
	2012 $'000	2011 $'000
Trade receivables	139,134	157,834
Provision for impairment of receivables	(871)	(1,568)
	138,263	156,266
Other receivables	16,195	6,821
	154,458	**163,087**

(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 2012, current trade receivables of the Group with a nominal value of $871,000 (2011: $1,568,000) were impaired. All impaired trade receivables are over 60 days old. The individually impaired receivables mainly relate to customers, who are in an unexpectedly difficult economic situation.

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

	Consolidated Entity	
	2012 $'000	2011 $'000
Balance at the beginning of the year	1,568	625
Impairment losses recognised on receivables	925	1,195
Amounts written off during the year as uncollectible	(976)	(252)
Impairment losses reversed	(646)	–
Balance at the end of the year	**871**	**1,568**

The creation and release of the provision for impaired receivables have been included in research, new business and other commercial costs in the profit or loss.

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

(C) PAST DUE BUT NOT IMPAIRED

As at 31 December 2012, trade receivables greater than 60 days of $23,641,000 (2011: $23,498,000) 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 trade receivables is as follows:

	Consolidated Entity	
	2012 $'000	2011 $'000
1 - 30 days	73,776	90,698
31 - 60 days	40,846	42,070
Greater than 60 days	23,641	23,498
	138,263	**156,266**

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 12 (Continued)

NOTE 11. CURRENT ASSETS - OTHER CURRENT ASSETS

	Consolidated Entity	
	2012 $'000	2011 $'000
Prepayments	4,975	3,354
	4,975	**3,354**

NOTE 12. NON-CURRENT ASSETS - OTHER RECEIVABLES

	Consolidated Entity	
	2012 $'000	2011 $'000
Amounts receivable from jointly controlled entities	14,149	12,556
	14,149	**12,556**

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

	Consolidated Entity	
	2012 $'000	2011 $'000
Balance at the beginning of the year	–	1,362
Impairment losses recognised on receivables	–	–
Amounts written off during the year as uncollectible	–	–
Impairment losses reversed	–	(1,362)
Balance at the end of the year	**–**	**–**

(A) RELATED PARTY RECEIVABLES

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

The Consolidated Entity, equity accounted investments 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 approximate to 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 2012 $'000	Consolidated Entity 2011 $'000
Investments in jointly controlled entities	95,373	97,033

Name	Principal Activity	Ownership Interest 2012	Ownership Interest 2011	Country of Incorporation/ Formation
Amblique Pty Limited	Digital marketing	40%	–	Australia
Bohemia Communications Pty Limited	Media planning	37.5%	37.5%	Australia
Campaigns and Communications Group Pty Limited	Campaign management	20%	20%	Australia
Catalyst Advertising Pty Limited (i)	Advertising	–	50%	Australia
Enigma Communication Pty Limited	Advertising	20%	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%	20.4%	Australia
Houston Group Pty Limited	Branding and design	40%	40%	Australia
Ikon3 LLC	Media planning	20%	20%	United States
Ikon Perth Pty Limited	Media planning	45%	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
Ogilvy Public Relations Worldwide Pty Limited and its subsidiaries	Public relations	49%	49%	Australia
Paragon Design Group Pty Limited	Advertising	49%	49%	Australia
Purple Communications Australia Pty Limited	Public relations	44%	–	Australia
Spinach Advertising Pty Limited	Advertising	20%	20%	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%	49%	Australia
White Digital Pty Limited (i)	Digital marketing	–	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.

Notes To The Financial Statements For The Year Ended 31 December 12 (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 2012 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	
	2012 $'000	2011 $'000
Share of jointly controlled entities' balance sheet items		
Current assets	91,840	94,763
Non-current assets	19,446	24,100
Total assets	**111,286**	**118,863**
Current liabilities	65,716	73,278
Non-current liabilities	4,925	13,825
Total liabilities	**70,641**	**87,103**
Net assets	**40,645**	**31,760**
Share of jointly controlled entities' revenue and profits		
Revenue	74,022	67,864
Profits before income tax	14,915	14,214
Income tax expense	(3,718)	(4,070)
Profits after income tax	**11,197**	**10,144**

(D) DIVIDENDS AND TRUST DISTRIBUTIONS RECEIVED

During the year, the Consolidated Entity received dividends and trust distributions of $7,646,365 (2011: $5,418,000) 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	
	2012 $'000	2011 $'000
Listed securities		
Shares in listed entities - at fair value	358	213
Unlisted securities		
Shares in other entities - at fair value	142	182
	500	**395**

Notes To The Financial Statements For The Year Ended 31 December 12 (Continued)

NOTE 15. NON-CURRENT ASSETS - PLANT AND EQUIPMENT

	Consolidated Entity	
Plant and equipment	**2012 $'000**	**2011 $'000**
At cost	45,013	34,252
Accumulated depreciation and amortisation	(19,518)	(13,426)
Total plant and equipment	**25,495**	**20,826**

RECONCILIATIONS

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

At 1 January 2011	**Plant and Equipment $'000**	**Total $'000**
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		
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**

Year ended 31 December 2012	Plant and Equipment $'000	Total $'000
Balance at the beginning of the year	20,826	20,826
Additions	8,565	8,565
Acquisition of subsidiary (refer to Note 33)	3,210	3,210
Disposals	(23)	(23)
Disposal of controlled entity	–	–
Depreciation and amortisation expense	(7,083)	(7,083)
Balance at the end of the year	**25,495**	**25,495**

At 31 December 2012		
At cost	45,013	45,013
Accumulated depreciation and amortisation	(19,518)	(19,518)
Net carrying amount	**25,495**	**25,495**

(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 12 (Continued)

NOTE 16. NON-CURRENT ASSETS - DEFERRED TAX ASSETS

	Consolidated Entity	
	2012 $'000	2011 $'000
Provisions	2,487	2,170
Doubtful debts	206	485
Accruals	2,401	1,836
Deferred interest rate hedge	461	517
Tax losses carried forward	1,843	1,040
Other	3,809	3,942
Gross deferred tax assets	**11,207**	**9,990**
Movements		
Opening balance	9,990	8,851
Credited to the income statement	1,273	702
(Charged)/credited to equity	(56)	437
Closing balance	**11,207**	**9,990**

Movements - consolidated	Provisions $'000	Doubtful Debts $'000	Accruals $'000	Deferred Interest Rate Hedge $'000	Tax Losses Carried Forward $'000	Other $'000	Total $'000
At 1 January 2011	**2,177**	**602**	**1,012**	**80**	**1,201**	**3,779**	**8,851**
(Charged)/credited to the income statement	(7)	(117)	824	–	(161)	163	702
Credited to equity	–	–	–	437	–	–	437
At 31 December 2011	**2,170**	**485**	**1,836**	**517**	**1,040**	**3,942**	**9,990**
(Charged)/credited to the income statement	317	(279)	565	–	803	(133)	1,273
Charged to equity	–	–	–	(56)	–	–	(56)
At 31 December 2012	**2,487**	**206**	**2,401**	**461**	**1,843**	**3,809**	**11,207**

NOTE 17. NON-CURRENT ASSETS - INTANGIBLE ASSETS

	Consolidated Entity	
	2012 $'000	2011 $'000
Goodwill	429,018	347,700
Brand names	57,027	57,027
Intellectual property	9,488	5,185
Total intangible assets	**495,533**	**409,912**

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 2011	Goodwill $'000	Brand Names $'000	Intellectual Property $'000	Total $'000
Gross carrying amount – at cost	325,165	57,027	4,748	386,940
Accumulated impairment and amortisation	(3,267)	–	(826)	(4,093)
Net carrying amount	**321,898**	**57,027**	**3,922**	**382,847**
Year ended 31 December 2011				
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 impairment and amortisation	(3,267)	–	(1,483)	(4,750)
Net carrying amount	**347,700**	**57,027**	**5,185**	**409,912**

Year ended 31 December 2012	Goodwill $'000	Brand Names $'000	Intellectual Property $'000	Total $'000
Balance at the beginning of the year	347,700	57,027	5,185	409,912
Additions	–	–	–	–
Acquisition of subsidiary (refer to Note 33)	79,653	–	5,781	85,434
Disposals	–	–	–	–
Net exchange differences on translation of financial reports	1,665	–	–	1,665
Impairment and amortisation expense	–	–	(1,478)	(1,478)
Balance at the end of the year	**429,018**	**57,027**	**9,488**	**495,533**
At 31 December 2012				
Gross carrying amount – at cost	432,285	57,027	12,449	501,761
Accumulated impairment and amortisation	(3,267)	–	(2,961)	(6,228)
Net book value	**429,018**	**57,027**	**9,488**	**495,533**

Notes To The Financial Statements For The Year Ended 31 December 12 (Continued)

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

(A) AMORTISATION CHARGE

The amortisation charge of $1,478,000 (2011: $738,000) 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 2012 or 31 December 2011.

(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 2013. Cash flows beyond 2013 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:

	2012 $'000	2011 $'000
Mass communications	203,989	192,257
Media and digital asset management	138,156	82,172
Brand development and management	85,808	87,019
Specialist communications	67,580	48,464
Total intangible assets	**495,533**	**409,912**

(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% (2011:15.5%);
- the growth rate used to extrapolate cash flows beyond the budget period is 3.0% (2011: 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 1.5% (2011: 2.0%) was consistently applied across all CGUs, the recoverable amount of the mass communications and brand development and management units would fall below their 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 they have similar levels 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 17.6% (2011: 16.6%) (pre tax) for the recoverable amount of the mass communications and brand development and management units valuation to fall below their carrying value all other assumption being equal. 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 cash flows, 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	
	2012 $'000	2011 $'000
Prepayments	610	441
	610	**441**

NOTE 19. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	Consolidated Entity	
	2012 $'000	2011 $'000
Trade payables	121,677	135,827
Interest rate hedge liabilities (refer to Note 19(d))	1,537	1,723
Sundry and other payables	30,066	22,151
Amounts payable to other related parties	1,638	686
Deferred cash settlement for controlled and jointly controlled entities acquired	14,373	2,605
Deferred income	12,980	17,948
	182,271	**180,940**

Notes To The Financial Statements For The Year Ended 31 December 12 (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 2012 was as follows:

	Consolidated Entity	
	2012 $'000	2011 $'000
Total mark to market liability	1,537	1,723

During the year ended 31 December 2011, 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 3.9% (2011: 4.9%) 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% (2011: 5.48% and 5.49%) 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 interest 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	**2012 $'000**	**2011 $'000**
Bank loans	3,208	2,740
	3,208	**2,740**

(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	
	2012 $'000	**2011 $'000**
Employee benefits	7,089	6,066

NOTE 22. NON-CURRENT LIABILITIES - OTHER PAYABLES

	Consolidated Entity	
	2012 $'000	**2011 $'000**
Deferred cash settlement for controlled and jointly controlled entities acquired	31,523	19,266
Sundry and other payables	2,084	1,006
Amounts payable to jointly controlled entities	4,175	7,901
	37,782	**28,173**

(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 12 (Continued)

NOTE 23. NON-CURRENT LIABILITIES - BORROWINGS

	Consolidated Entity	
Secured – at amortised cost	**2012 $'000**	**2011 $'000**
Bank loans	133,009	109,133
	133,009	**109,133**

Financing facilities available

At reporting date, the following financing facilities had been negotiated and were available:

Available at balance date		
Total facilities - bank loans	212,926	173,235
Used at balance date		
Facilities used at balance date - bank loans	136,217	111,873
Unused at balance date		
Facilities unused at balance date - bank loans	76,709	61,362

(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 $228,000,000 (2011: $178,000,000). These facilities are split between a debt facility of $210,000,000 and guarantee facility of $18,000,000 (2011: $8,000,000). This $210,000,000 facility includes an additional $50,000,000 facility that matures on 1 July 2015 that was secured by the Company on 9 July 2012. The maturity profile of these facilities (excluding the $18,000,000 guarantee facility) is outlined below:

Debt facility amounts $		Date of maturity
	85,000,000	January 2015
	75,000,000	January 2015
	50,000,000	July 2015
TOTAL	**210,000,000**	

Bank facilities totalling $228,000,000 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 subsidiaries.

(ii) New Zealand banking facilities

The Company has access to a New Zealand Dollar bank facility provided by ANZ National Bank Limited for the amount of $2,900,000 (2011: $3,235,000). Bank loans are secured by a guarantee and indemnity provided by Ogilvy New Zealand Limited.

(iii) Classification

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

(B) INDEMNITY GUARANTEE FACILITY

The indemnity guarantee facility is in place to support financial guarantees. Specific guarantee amounts are $10,040,000 (2011: $7,391,000) supporting property rental and other obligations.

Notes To The Financial Statements For The Year Ended 31 December 12 (Continued)

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

(C) ASSETS PLEDGED AS SECURITY

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

	Consolidated Entity	
	2012 $'000	2011 $'000
Current assets		
Cash and cash equivalents	14,999	10,574
Trade and other receivables	99,194	104,732
Other current assets	7,460	6,389
Total current assets	**121,653**	**121,695**
Non-current assets		
Other receivables	17,807	24,409
Investments accounted for using the equity method	75,346	81,288
Other financial assets	335,956	246,234
Plant and equipment	17,640	16,113
Deferred tax assets	8,990	8,793
Intangible assets	168,887	174,090
Total non-current assets	**624,626**	**550,927**
Total assets	**746,279**	**672,622**

(D) 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	
	2012 $'000	2011 $'000
Accrued income	18	32
Prepayments	303	9
Plant and equipment	34	56
Executive share plan	6,401	6,401
Gross deferred tax liabilities	**6,756**	**6,498**
Movements		
Opening balance	6,498	6,718
Charged/(credited) to the income statement	258	(220)
Closing balance	**6,756**	**6,498**

Movements - consolidated	Accrued Income $'000	Prepayments $'000	Plant and Equipment $'000	ESP $'000	Total $'000
At 1 January 2011	**–**	**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**
Charged/(credited) to the income statement	(14)	294	(22)	–	258
At 31 December 2012	**18**	**303**	**34**	**6,401**	**6,756**

NOTE 25. NON-CURRENT LIABILITIES - PROVISIONS

	Consolidated Entity	
	2012 $'000	2011 $'000
Employee benefits	3,075	2,444

NOTE 26. ISSUED CAPITAL

	2012	2011	2012	2011
	Number of Shares	Number of Shares	$'000	$'000
Ordinary shares issued and fully paid - parent entity	403,828,512	362,798,351	334,676	296,144
Shares under the executive share plan	(6,184,833)	(6,652,333)	(20,847)	(21,249)
Total issued capital - consolidated	**397,643,679**	**356,146,018**	**313,829**	**274,895**

(A) MOVEMENTS IN ORDINARY SHARES ON ISSUE

	2012	2012	2011	2011
	Number of Shares	$'000	Number of Shares	$'000
At 1 January for parent entity	**362,798,351**	296,144	**364,310,964**	297,435
Share buy-backs	–	–	(1,512,613)	(1,291)
Issue of new shares	41,030,161	38,532	–	–
At 31 December for parent entity	**403,828,512**	**334,676**	**362,798,351**	**296,144**

Notes To The Financial Statements For The Year Ended 31 December 12 (Continued)

NOTE 26. ISSUED CAPITAL (CONTINUED)

(A) MOVEMENTS IN ORDINARY SHARES ON ISSUE (CONTINUED)

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.

Share buy-backs

There were no share buy-backs during the year ended 31 December 2012.

During the year ended 31 December 2011, 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.

Share issue

During the year ended 31 December 2012, a total of 41,030,161 ordinary shares were issued by the Company on-market pursuant to its capital raising. These share issues were undertaken at a price of $0.97 per share prior to the costs incurred as part of the capital raising. No share issues occurred during the year ended 31 December 2011.

(B) 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	2012	2012	2011	2011
	Number of Shares	$'000	Number of Shares	$'000
At 1 January for parent entity	6,652,333	21,249	6,652,333	21,249
Share allocated to executives	(467,500)	(402)	–	–
At 31 December for parent entity	**6,184,833**	**20,847**	**6,652,333**	**21,249**

(C) CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that entities in the Group 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 gross debt to EBITDA and gross debt to gross debt plus equity ratios for the Group at 31 December 2012 and 31 December 2011 were as follows:

		Consolidated Entity	
	Target	2012 $'000	2011 $'000
Total borrowings		136,217	111,873
Add: deferred cash settlement for controlled and jointly controlled entities acquired		45,896	21,871
Gross debt		182,113	133,744
EBITDA		89,457	81,115
Equity		463,435	396,304
Gross debt to EBITDA ratio	1.5 - 2.0 times	2.04	1.65
Gross debt to gross debt plus equity ratio	25% - 35%	28.21%	25.23%

NOTE 27. RESERVES

	Consolidated Entity	
	2012 $'000	2011 $'000
Equity settled share-based payment reserve	2,153	1,272
Brand name revaluation reserve	16,275	16,275
Interest rate hedge reserve	(1,076)	(1,206)
Foreign currency translation reserve	(4,288)	(7,072)
Transactions with non-controlling interests reserve	5,149	–
Closing balance	**18,213**	**9,269**
Movements		
Equity settled share-based payment reserve		
Opening balance	1,272	525
Cost of share-based payments	1,283	747
Issue of executive share plan shares	(402)	–
Closing balance	**2,153**	**1,272**

Interest rate hedge reserve		
Opening balance	(1,206)	(186)
Gain/(loss) on cash flow hedges taken to equity	186	(1,457)
Deferred tax	(56)	437
Closing balance	**(1,076)**	**(1,206)**

Notes To The Financial Statements For The Year Ended 31 December 12 (Continued)

NOTE 27. RESERVES (CONTINUED)

	Consolidated Entity 2012 $'000	Consolidated Entity 2011 $'000
Foreign currency translation reserve		
Opening balance	(7,072)	(7,236)
Exchange gain arising on translation of foreign operations	2,784	164
Closing balance	**(4,288)**	**(7,072)**

	Consolidated Entity 2012 $'000	Consolidated Entity 2011 $'000
Transactions with non-controlling interests reserve		
Opening balance	–	–
Gain on disposal of subsidiary without loss of control	5,149	–
Closing balance	**5,149**	**–**

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) Brand name revaluation reserve

The brand name revaluation reserve is used to record the net upward revaluation of acquired brand names. There will be no further additions to this reserve.

(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(y). Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

(iv) 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.

(v) Transactions with non-controlling interests reserve

This reserve is used to record the differences described in Note 1(c)(iii) which may arise as a result of transactions with non-controlling interests that do not result in a loss of control.

NOTE 28. RETAINED EARNINGS

	Consolidated Entity 2012 $'000	Consolidated Entity 2011 $'000
Opening balance	76,801	62,174
Net profit for the year	43,967	40,889
Dividends provided for or paid	(30,119)	(26,262)
Closing balance	**90,649**	**76,801**

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 that of 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 foreign exchange and interest rate 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	
	2012 $'000	2011 $'000
Financial assets		
Cash and cash equivalents	43,641	27,141
Trade and other receivables	168,607	175,643
Other financial assets	358	213
	212,606	**202,997**
Financial liabilities		
Trade and other payables (excluding deferred cash settlement and derivatives)	172,620	185,519
Deferred cash settlement	45,896	21,871
Secured bank loans	136,217	111,873
Derivative financial instruments	1,537	1,723
	356,270	**320,986**

(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): foreign exchange risk (due to fluctuations in foreign exchange rates) and interest rate risk (due to fluctuations in interest rates).

Notes To The Financial Statements For The Year Ended 31 December 12 (Continued)

NOTE 29. FINANCIAL INSTRUMENTS (CONTINUED)

(A) MARKET RISK (CONTINUED)

(i) Foreign exchange risk

Foreign currency risk refers to the risk that the value or the cash flows arising from a financial commitment, or recognised asset or liability will fluctuate due to changes in foreign currency rates. The Group's foreign exchange risk arises primarily from:

– sales and purchases denominated in foreign currency;
– borrowings denominated in foreign currency; and
– firm commitments and/or highly probable forecast transactions for receipts and payments settled in foreign currencies and prices dependent on foreign currencies, respectively.

The Group is exposed to foreign exchange risk from various currency exposures primarily with respect to:

– New Zealand Dollars;
– United States Dollars;
– Singaporean Dollars;
– Canadian Dollars;
– Malaysian Ringgits;
– British Pounds;
– Thai Baht;
– Euro; and
– South African Rand.

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

The following table details the Group's net exposure to foreign exchange risk as at the reporting date. All balances expressed in thousands.

31 December 2012	2012 NZD	2012 USD	2012 SGD	2012 CAD	2012 MYR	2012 GBP	2012 THB	2012 EUR	2012 ZAR
Financial assets	–	2,559	432	617	243	10	3,798	573	513
Financial liabilities	–	(164)	–	–	–	–	–	(6)	–
	–	**2,395**	**432**	**617**	**243**	**10**	**3,798**	**567**	**513**

31 December 2011	2011 NZD	2011 USD	2011 SGD	2011 CAD	2011 MYR	2011 GBP	2011 THB	2011 EUR	2011 ZAR
Financial assets	–	638	–	–	–	–	–	90	–
Financial liabilities	–	(43)	–	–	–	–	–	(2)	(146)
	–	**595**	**–**	**–**	**–**	**–**	**–**	**88**	**(146)**

Sensitivity

The analysis below shows the impact on the income statement and equity movement in foreign currency exchange rates against the Australian dollar on the Group's major currencies using the net exposure at the balance date. A sensitivity of 10% has been chosen as this is a reasonable measurement given the level of exchange rates and the volatility observed on an historic basis.

The impact on profit and equity is post tax at a rate of 30%. The risks faced and methods used in the sensitivity analysis are the same as those applied in the comparative period. As shown below, a 10% movement in exchange rates would have a minimal impact on the Group's financial position.

	Movement in foreign currency	Impact to post-tax profit 2012 $'000 AUD	Impact to post-tax profit 2011 $'000 AUD
New Zealand Dollar (NZD)	+ 10%/- 10%	–	–
US Dollar (USD)	+ 10%/- 10%	231	58
Singaporean Dollar (SGD)	+ 10%/- 10%	34	–
Canadian Dollar (CAD)	+ 10%/- 10%	60	–
Malaysian Ringgit (MYR)	+ 10%/- 10%	8	–
British Pound (GBP)	+ 10%/- 10%	2	–
Thai Baht (THB)	+ 10%/- 10%	12	–
Euro (EUR)	+ 10%/- 10%	72	2
South African Rand (ZAR)	+ 10%/- 10%	6	11

(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 2012, the interest rate hedges were marked to market and gave rise to a mark to market liability at that date of $1,537,000 (2011: $1,723,000) (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	2012 Weighted average interest rate % p.a.	2012 Balance $'000	2011 Weighted average interest rate % p.a.	2011 Balance $'000
Secured bank loans	3.88%	136,217	4.99%	111,873
Interest rate swaps (notional principal amount)	5.49%	(50,000)	5.49%	(50,000)
Net exposure to cash flow interest rate risk		**86,217**		**61,873**

Notes To The Financial Statements For The Year Ended 31 December 12 (Continued)

NOTE 29. FINANCIAL INSTRUMENTS (CONTINUED)

(A) MARKET RISK (CONTINUED)

(ii) Cash flow and fair value interest rate risk (continued)

Interest rate swaps were entered into in January 2011, totalling $50 million with a weighted average interest rate of 5.49% per annum and expiring in January 2014.

On 26 February 2013, the company entered into an interest rate swap of $40 million at a fixed rate of 3.11% that matures on 1 March 2016.

Sensitivity

At 31 December 2012, 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 $604,000 lower/higher (2011: change of 100 basis points: $433,000) mainly as a result of lower/higher interest expense on borrowings. Equity would have been $604,000 lower/higher (2011: $433,000 lower/higher). This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

The analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point increase or decrease represents management's assessment of the reasonably possible change in interest rates.

The Group's sensitivity to interest rates has increased during the current year due to the increase in the unhedged portion of the bank loans.

(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.

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 loans 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.

Contractual maturities of financial liabilities As at 31 December 2012	Maturity ≤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 and derivatives below)	166,361	–	5,800	–	–	172,161	172,620
Deferred cash settlement	9,452	6,531	8,187	22,791	2,511	49,472	45,896
Secured bank loans	–	3,208	–	133,009	–	136,217	136,217
	175,813	**9,739**	**13,987**	**155,800**	**2,511**	**357,850**	**354,733**
Derivatives							
Net settled (interest rate swaps)	1,537	–	–	–	–	1,537	1,537

Contractual maturities of financial liabilities As at 31 December 2011	Maturity ≤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 and derivatives 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 loans	–	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

Notes To The Financial Statements For The Year Ended 31 December 12 (Continued)

NOTE 29. FINANCIAL INSTRUMENTS (CONTINUED)

(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 2012 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 2012:

As at 31 December 2012	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Consolidated Entity				
Assets - shares in listed entities	358	–	–	358
Assets - shares in unlisted entities	–	–	142	142
Liabilities - derivatives used for hedging	–	(1,537)	–	(1,537)
Total assets/(liabilities)	358	(1,537)	142	(1,037)

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 other entities	–	–	182	182
Liabilities - derivatives used for hedging	–	(1,723)	–	(1,723)
Total assets/(liabilities)	213	(1,723)	182	(1,328)

The following table presents the changes in level 3 instruments for the years ended 31 December 2012 and 31 December 2011:

	Unlisted equity securities $'000
Opening balance 1 January 2011	–
Movement	182
Closing balance 31 December 2011	**182**
Movement	(40)
Closing balance 31 December 2012	**142**

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% to 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 29.

The existing borrowing facilities are subject to various debt covenants.

Notes To The Financial Statements For The Year Ended 31 December 12 (Continued)

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 2012, 6,184,333 (2011: 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 executives' 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 the 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 - 2012									
January 2009	1-Mar-12	Base Plan	$0.55	467,500	–	–	(467,500)	–	–
February 2010	1-Mar-13	Base Plan	$0.69	3,220,000	–	(133,000)	–	3,087,000	3,087,000
February 2010	1-Mar-13	Overperformance Plan	$0.84	603,750	–	(391,125)	–	212,625	212,625
February 2011	1-Mar-14	Base Plan	$1.10	1,130,000	–	–	–	1,130,000	–
February 2011	1-Mar-14	Overperformance Plan	$1.10	211,875	–	–	–	211,875	–
February 2012	1-Mar-15	Base Plan	$0.84	–	1,510,000	(100,000)	–	1,410,000	–
February 2012	1-Mar-15	Overperformance Plan	$0.84	–	283,125	(18,750)	–	264,375	–
Total				5,633,125	1,793,125	(642,875)	(467,500)	6,315,875	3,299,625

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

Total expense from share-based payment transactions recognised during the year as part of employee benefit expense was $1,283,000 (2011: $747,000).

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

The following persons were the Directors of the Company during the year ended 31 December 2012:

Chairman
Robert Mactier

Chief Executive Officer and Executive Director
Michael Connaghan
Peter Cullinane

Non-executive Directors
Paul Richardson
Ian Tsicalas
Graham Cubbin
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 2011.

KMP compensation

The aggregate compensation made to KMP excluding Non-executive Directors of the Company and the Group is set out below:

	Consolidated Entity	
	2012 $	2011 $
Short-term employee benefits	2,948,928	2,905,503
Post-employment benefits	47,325	52,005
Share-based benefits	599,551	383,512
Total for KMP	**3,595,804**	**3,341,020**

Notes To The Financial Statements For The Year Ended 31 December 12 (Continued)

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

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
2012							
Director							
Michael Connaghan	1,246,875	356,250	–	(126,000)	1,477,125	942,750	534,375
Other KMP							
Chris Savage	811,500	225,625	(99,000)	(63,000)	875,125	471,375	403,750
Lukas Aviani	344,375	118,750	–	(29,400)	433,725	219,975	213,750

Name	Balance at the Start of the Year	Granted	Exercised	Forfeited	Balance at the End of the Year	Vested and Exercisable	Unvested
2011							
Director							
Michael 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

(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	Acquisition of Shares	Disposal of Shares	Balance at the End of the Year
2012					
Directors					
Robert Mactier	562,500	–	15,464	–	577,964
Paul Richardson	–	–	–	–	–
Ian Tsicalas	50,000	–	15,463	–	65,463
Graham Cubbin	100,000	–	–	–	100,000
Michael Connaghan	838,870	–	15,463	(800,000)	54,333
Peter Cullinane	34,500	–	–	–	34,500
Kim Anderson	–	–	–	–	–
Other KMP					
Chris Savage	121,875	99,000	–	(211,500)	9,375
Lukas Aviani	95,356	–	15,463	(11,700)	99,119

Name	Balance at the Start of the Year	Granted During the Year as Compensation	Acquisition of Shares	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

Notes To The Financial Statements For The Year Ended 31 December 12 (Continued)

NOTE 32. RELATED PARTY DISCLOSURES

(A) ULTIMATE PARENT ENTITY

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 2012 and 2011 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 2012 was $222,000 (2011: $112,000). 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 2012

On 1 January 2012, STW Group Investments Pte Limited ("SGI") acquired 100% of Edge Marketing Limited ("Edge"). Edge is a full service advertising agency which operates out of Thailand, Vietnam, Singapore and Hong Kong.

On 1 January 2012, STW Media Services Pty Limited ("SMS") acquired an additional 25% of Catalyst Advertising Pty Limited ("Catalyst"), thereby increasing SMS's ownership to 75%. Catalyst is a full service advertising agency which operates out of Melbourne.

On 1 March 2012, SMS acquired 80% of Yellow Edge Pty Limited ("Yellow Edge"). Yellow Edge is a training and facilitation agency which operates out of the ACT, New South Wales, Queensland, Victoria and New Zealand.

On 1 April 2012, STW Group Asia Holdings Pte Limited ("SGA") acquired 100% of Buchanan Group Holdings Pte Limited ("Buchanan"). Buchanan is a full service advertising agency which operates out of Canada, the United Kingdom, Malaysia, Singapore and Australia.

On 1 July 2012, SMS acquired 70% of Picnic Software Pty Limited ("Picnic"). Picnic is a production software company which operates out of Melbourne.

On 1 July 2012, SMS acquired 80% of Maverick Marketing and Communications Pty Limited ("Maverick"). Maverick is an experiential marketing and public relations agency which operates out of Sydney.

On 1 July 2012, SMS acquired 100% of Markitforce Group Pty Limited ("Markitforce"). Markitforce is a point of sale management, product fulfilment, warehousing and distribution services company which operates out of Sydney, Melbourne, Brisbane, Adelaide, Perth and Auckland.

On 1 July 2012, SMS acquired an additional 51% of White Digital Pty Limited ("White"), thereby increasing SMS's ownership to 100%. White is a full service digital marketing agency which operates out of Sydney.

On 1 July 2012, Singleton, Ogilvy & Mather (Holdings) Pty Limited ("SOM Holdings") acquired 51% of Ogilvy Action 2012 Pty Limited ("Ogilvy Action 2012"). STW Communications Group Limited holds a 66.67% share in SOM Holdings. Ogilvy Action 2012 is a market research and advertising agency specific to the retail industry which operates out of Sydney.

On 10 September 2012, SMS acquired 75% of Switched On Media Pty Limited ("Switched On Media"). Switched On Media is a full service digital marketing agency which operates out of Sydney.

On 1 December 2012, SGA acquired 60% of Aleph Pte Limited ("Aleph"). Aleph is a digital strategy, design and innovation agency which operates out of Singapore.

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.

Notes To The Financial Statements For The Year Ended 31 December 12 (Continued)

NOTE 33. BUSINESS COMBINATIONS (CONTINUED)

(A) SUMMARY OF MATERIAL ACQUISITIONS DURING THE YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

		Consolidated Entity	
	Notes	2012 $'000	2011 $'000
Purchase consideration:			
Acquisition cost in prior periods and/or deferred cash settlement		28,933	2,897
Fair value – equity accounted interest		9,596	8,712
Cash paid in the current period	33(c)	53,254	3,350
Total purchase consideration		**91,783**	**14,959**
Fair value of net identifiable assets acquired	33(b)	12,130	625
Goodwill acquired		**79,653**	**14,334**

The acquired businesses contributed revenues of $42,949,986 and net profit of $10,025,136 to the Group for the period from 1 January 2012 to 31 December 2012. If control over these entities had all been achieved on 1 January 2012, the revenue from continuing operations would have been $33,641,872 higher and the profit for the Group would have been $5,419,280 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.

(B) ASSETS AND LIABILITIES ACQUIRED

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

	Consolidated Entity	
	2012 $'000	2011 $'000
Fair value of net assets acquired		
Cash and cash equivalents	7,577	888
Trade and other receivables	15,616	2,758
Prepayments	219	65
Other current assets	5,406	346
Plant and equipment	3,210	455
Other non-current assets	801	90
Trademarks	5,781	–
Trade and other payables	(7,356)	(1,683)
Current tax liabilities	(873)	–
Other current liabilities	(14,304)	(1,046)
Provisions – current	(1,740)	(80)
Borrowings	(1,213)	–
Other non-current liabilities	(16)	(1,253)
Net assets	**13,108**	**540**
Non-controlling interests in net assets acquired	(978)	85
Net identifiable assets acquired	**12,130**	**625**

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	2012 $'000	2011 $'000
Cash consideration	33(a)	53,254	3,350
Cash balances acquired	33(b)	(7,577)	(888)
Outflow of cash		**45,677**	**2,462**

(D) DISPOSALS

During the year ended 31 December 2012, STW Media Services Pty Limited ("SMS") disposed of a 33.33% equity interest in DT Digital Pty Limited. The proceeds received by SMS were $5.1 million. The gain on sale as a result of this transaction was $3.1 million (less the associated income tax expense).

During the year ended 31 December 2012, STW Media Services Pty Limited ("SMS") disposed of a 10% equity interest in Haylix Pty Limited.

During the year ended 31 December 2011, 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.

Notes To The Financial Statements For The Year Ended 31 December 12 (Continued)

NOTE 33. BUSINESS COMBINATIONS (CONTINUED)

(E) TRANSACTIONS WITH NON-CONTROLLING INTERESTS

The effect of changes in the ownership interest of DT Digital Pty Limited on the equity attributable to owners of the Company during the year is summarised as follows:

	Consolidated Entity	
	2012 $'000	2011 $'000
Carrying amount of non-controlling interest disposed	(113)	–
Consideration received from non-controlling interests	5,262	–
Excess of consideration received recognised in the transactions with non-controlling interests reserve within equity	**5,149**	–

There were no transactions with non-controlling interests in 2011.

NOTE 34. EXPENDITURE COMMITMENTS

(A) CAPITAL EXPENDITURE COMMITMENTS

As at 31 December 2012, the Group had no commitments for expenditure (2011: 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 2012 are as follows:

	Consolidated Entity	
	2012 $'000	2011 $'000
Within one year	16,584	13,544
Later than one year and not later than five years	45,641	41,450
Later than five years	24	4,515
	62,249	**59,509**
Share of jointly controlled entities' operating lease commitments	**2,119**	**3,600**

NOTE 35. CONTINGENT LIABILITIES

The Consolidated Entity had contingent liabilities in respect of:

		Consolidated Entity	
	Notes	2012 $'000	2011 $'000
Bank guarantees	35(b)	10,040	7,391
		10,040	**7,391**

(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 $10,040,000 (2011: $7,391,000) 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 $210,000,000 (2011: $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 2012	Ownership Interest 2011	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

Notes To The Financial Statements For The Year Ended 31 December 12 (Continued)

NOTE 36. SUBSIDIARIES (CONTINUED)

	Type of Share/Unit	Ownership Interest 2012	Ownership Interest 2011	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	Ordinary	75%	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
– Ogilvy Action 2012 Pty Limited	Ordinary	51%	–	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	Ordinary	85%	85%	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 Group 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)	Ordinary	100%	100%	Australia
– New Dialogue Pty Limited (i)	Ordinary	100%	100%	Australia

	Type of Share/Unit	Ownership Interest 2012	Ownership Interest 2011	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
– Buchanan Advertising (Australia) Pty Limited (i)	Ordinary	100%	–	Australia
– Catalyst Advertising Pty Limited (ii)	Ordinary	75%	–	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 (iv)	Ordinary	66.67%	100%	Australia
– Hatch Entertainment Pty Limited	Ordinary	100%	–	Australia
– Haylix Pty Limited (formerly Brighthost Pty Limited) (iii)	Ordinary	90%	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
– Markitforce Group Pty Limited and its controlled entities (i)	Ordinary	100%	–	Australia
– Maverick Marketing and Communications Pty Limited	Ordinary	80%	–	Australia

Notes To The Financial Statements For The Year Ended 31 December 12 (Continued)

NOTE 36. SUBSIDIARIES (CONTINUED)

	Type of Share/Unit	Ownership Interest 2012	Ownership Interest 2011	Country of Incorporation/ Formation
– 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
– Picnic Software Pty Limited	Ordinary	70%	–	Australia
– Rhodon IT Pty Limited *	Ordinary	100%	100%	Australia
– 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 *	Ordinary	100%	100%	Australia
– STW Group Asia Holdings Pte Limited	Ordinary	100%	–	Singapore
– Aleph Pte Limited	Ordinary	60%	–	Singapore
– Buchanan Group Holdings Pte Limited and its controlled entities (i)	Ordinary	100%	–	Singapore
– Buchanan Advertising (UK) Limited	Ordinary	100%	–	United Kingdom
– Buchanan Advertising (Malaysia) Sdn Bhd	Ordinary	100%	–	Malaysia
– Buchanan Advertising (Canada) Inc.	Ordinary	100%	–	Canada
– Buchanan Licencing (Singapore) Pte Limited	Ordinary	100%	–	Singapore
– STW Group Investments Pte Limited and its controlled entities	Ordinary	100%	–	Singapore
– Edge Marketing Limited and its controlled entities (i)	Ordinary	100%	–	British Virgin Islands
– Edge Marketing Limited	Ordinary	100%	–	Hong Kong
– Edge Asia Holdings Pte Limited	Ordinary	100%	–	Singapore
– The New Media Edge Company Limited	Ordinary	100%	–	Thailand
– Mindcookies Company Limited	Ordinary	100%	–	Thailand
– Edge Marketing Vietnam Limited	Ordinary	100%	–	Vietnam
– Pivotal Marketing Vietnam Limited	Ordinary	100%	–	Vietnam

	Type of Share/Unit	Ownership Interest 2012	Ownership Interest 2011	Country of Incorporation/ Formation
– 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%	100%	Australia
– STW Win Pty Limited *	Ordinary	100%	100%	Australia
– Subnine Pty Limited *	Ordinary	100%	100%	Australia
– Switched On Media Pty Limited	Ordinary	75%	–	Australia
– Team Red Communications Pty Limited *	Ordinary	100%	100%	Australia
– The Brand Agency Unit Trust and its controlled entity	Ordinary	84%	84%	Australia
– Rolfe Limited	Ordinary	100%	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
– White Digital Pty Limited (i) (ii)	Ordinary	100%	–	Australia
– Designworks (Melbourne) Pty Limited (formerly Yello Brands (Melbourne) Pty Limited)*	Ordinary	100%	100%	Australia
– Yello Brands (Sydney) Pty Limited *	Ordinary	100%	100%	Australia
– Yellow Edge Pty Limited	Ordinary	80%	–	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) During the year, STW Media Services Pty Limited ("SMS") disposed of a 10% interest in Haylix Pty Limited. SMS retains a 90% interest in Haylix Pty Limited.

(iv) During the year, SMS disposed of an 33.33% interest in DT Digital Pty Limited. SMS retains a 66.67% interest in DT Digital Pty Limited.

* 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 Adcast Technology Unit Trust, 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 12 (Continued)

NOTE 37. DEED OF CROSS GUARANTEE

STW Communications Group Limited and certain of its Australian wholly-owned 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, summary of movements in consolidated retained earnings and consolidated balance sheet

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 2012 and a consolidated balance sheet as at 31 December 2012 of the closed group consisting of STW Communications Group Limited and its controlled entities:

	2012 $'000	2011 $'000
Income statement		
Profit before income tax	27,104	43,525
Income tax expense	(1,588)	(5,575)
Net profit	**25,516**	**37,950**
Statement of comprehensive income		
Net profit	**25,516**	**37,950**
Other comprehensive income		
Transactions with non-controlling interest	5,149	–
Cash flow hedges gain on cash flow hedges taken to equity	186	1,457
Income tax relating to components of other comprehensive income	(56)	(437)
Other comprehensive income (net of tax)	5,279	1,020
Total comprehensive income	**30,795**	**38,970**
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the year	69,422	59,574
Net profit	25,516	37,950
Changes to the entities within the closed group	(505)	(1,872)
Dividends provided for or paid	(30,122)	(26,230)
Retained earnings at the end of the financial year	**64,311**	**69,422**

Balance sheet	2012 $'000	2011 $'000
Current assets		
Cash and cash equivalents	53	54
Trade and other receivables	73,323	83,330
Current tax receivables	1,256	–
Other current assets	5,263	5,777
Total current assets	**79,895**	**89,161**
Non-current assets		
Other receivables	75,981	59,197
Investments accounted for using the equity method	90,598	96,308
Other financial assets	272,691	208,126
Plant and equipment	9,865	10,092
Deferred tax assets	5,879	6,457
Intangible assets	136,184	142,959
Other non-current assets	74	1,106
Total non-current assets	**591,272**	**524,245**
Total assets	**671,167**	**613,406**
Current liabilities		
Trade and other payables	92,223	100,595
Borrowings	14,027	5,140
Current tax liabilities	–	5,173
Provisions	2,056	2,319
Total current liabilities	**108,306**	**113,227**
Non-current liabilities		
Other payables	22,955	22,487
Borrowings	132,900	109,133
Deferred tax liabilities	1,012	1,031
Provisions	1,048	1,440
Total non-current liabilities	**157,915**	**134,091**
Total liabilities	**266,221**	**247,318**
Net assets	**404,946**	**366,088**
Equity		
Issued capital	334,677	296,144
Reserves	5,958	522
Retained earnings	64,311	69,422
Total equity	**404,946**	**366,088**

Notes To The Financial Statements For The Year Ended 31 December 12 (Continued)

NOTE 38. AUDITORS' REMUNERATION

	Consolidated Entity 2012 $	Consolidated Entity 2011 $
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	590,000	670,000
– other non-audit services	7	–
– tax compliance services in relation to the entity and any other entity in the Consolidated Entity	136,005	112,790
	726,012	**782,790**
Amounts received or due and receivable by BDO New Zealand Ltd for:		
– an audit of the financial report of entities within the Consolidated Entity	101,466	74,000
– tax compliance services in relation to entities within the Consolidated Entity	36,828	–
	138,294	**74,000**

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 5 April 2013 and the final dividend is payable on 19 April 2013. The amount payable is $20,191,000. The financial impact of the final dividend is not included in the results for the year ended 31 December 2012.

On 1 February 2013, Senior Minds Pty Limited acquired a 49% equity interest in Cru Holdings Pty Limited ("Cru"). STW Media Services Pty Limited ("SMS") holds an 80% share in Senior Minds Pty Limited. Cru is a digital marketing agency which operates out of Brisbane.

On 15 March 2013, SMS acquired a 49% equity interest in Beyond Analysis Australia Pty Limited ("Beyond") which operates out of Sydney. Beyond is the Australian arm of Beyond Footprint Limited, a global leader in data and analytics.

On 26 February 2013, the company entered into an interest rate swap of $40 million at a fixed rate of 3.11% that matures on 1 March 2016.

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	
	2012 $'000	2011 $'000
Balance sheet		
Current assets	16,337	27,300
Non-current assets	513,368	439,899
Total assets	529,705	467,199
Current liabilities	5,559	10,833
Non-current liabilities	187,086	159,579
Total liabilities	192,645	170,412
Net assets	**337,060**	**296,787**
Equity		
Issued capital	334,676	296,144
Reserves	1,480	66
Retained earnings	904	577
Total equity	**337,060**	**296,787**
Net profit	30,447	26,522
Total comprehensive income	**30,577**	**25,502**

(B) CONTINGENT LIABILITIES OF THE PARENT ENTITY

The parent entity had contingent liabilities in respect of:

	Parent Entity	
	2012 $'000	2011 $'000
Bank guarantees	**10,040**	**7,391**

The Company has provided various bank guarantees for rental premises totalling $10,040,000 (2011: $7,391,000) 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 $210,000,000 (2011: $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.

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 accompanying 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 accompanying 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
Chairman

Michael Connaghan
Chief Executive Officer

Sydney, 28 March 2013

Independent Auditor's Report

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
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 2012, 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 65 to 135.

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 gives a true and fair view and 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 consolidated 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 2012 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 37 to 57 of the directors' report for the year ended 31 December 2012. 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 2012, complies with section 300A of the Corporations Act 2001.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

JM Stanley
Partner
Chartered Accountants
Sydney, 28 March 2013

ASX Additional Information As At 11 March 13

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 11 March 2013 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	1,440	584,025
1,001 – 5,000	1,739	5,040,469
5,001 – 10,000	950	7,478,743
10,001 – 100,000	1,473	39,719,119
100,001 and over	91	351,006,156
	5,693	**403,828,512**

(B) MARKETABLE PARCEL

The number of shareholders holding less than a marketable parcel of shares (ie $500 worth of shares), is 344. In accordance with ASX Business Rules, the last sale price of the Company's shares on the ASX on 11 March 2013 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	18.57
JP Morgan Nominees Australia Limited	56,453,599	13.98
HSBC Custody Nominees (Australia) Limited	43,743,041	10.83
National Nominees Limited	39,057,297	9.67
RBC Investor Services Australia Nominees Pty Limited (Pipooled A/C)	36,675,802	9.08
Citicorp Nominees Pty Limited	23,421,611	5.80
BNP Paribas Noms Pty Limited (DRP)	20,562,936	5.09
RBC Investor Services Australia Nominees Pty Ltd (Bkcust A/C)	7,888,738	1.95
JP Morgan Nominees Australia Limited (Cash Income A/C)	5,644,915	1.40
Citicorp Nominees Pty Limited (Colonial First State Inv A/C)	5,014,232	1.24
HSBC Custody Nominees (Australia) Limited (NT Comnwlth Super Corp A/C)	3,461,239	0.86
AMP Life Limited	2,902,828	0.72
CPU Share Plans Pty Ltd	2,885,208	0.71
Queensland Investment Corporation	2,745,623	0.68
Equity Trustees Limited (SGH IC2E)	2,282,146	0.57
RBC Investor Services Australia Nominees Pty Ltd (Gsam A/C)	2,191,386	0.54
RBC Dexia Investor Services Australia Nominees Pty Ltd (Piselect A/C)	1,705,387	0.42
ABN Amro Clearing Sydney Nominees Pty Ltd (Custodian A/C)	1,186,923	0.29
Josseck Pty Limited (The Josseck Family A/C)	1,100,768	0.27
Brispot Nominees Pty Limited (House Head Nominee No. 1 A/C)	809,077	0.20
	334,732,756	**82.89**

(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	18.57
Perpetual Limited	45,549,731	11.28

(i) Cavendish Square Holdings BV is a wholly-owned subsidiary of WPP Group plc ("WPP"). As at 11 March 2013, 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)
Michael Connaghan (Chief Executive Officer)
Paul Richardson
Ian Tsicalas
Graham Cubbin
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

Herbert Smith Freehills
Minter Ellison

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 17 May 2013 at:
1 Kent Street
Sydney NSW 2000

ABN

84 001 657 370