



STW COMMUNICATIONS GROUP LIMITED

ABN 84 001 657 370

GENERAL PURPOSE FINANCIAL REPORT

INTERIM FINANCIAL REPORT - 30 JUNE 2014

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2013 and any public announcements made by STW Communications Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

STW COMMUNICATIONS GROUP LIMITED

ABN 84 001 657 370

GENERAL PURPOSE FINANCIAL REPORT

INTERIM FINANCIAL REPORT - 30 JUNE 2014

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STW COMMUNICATIONS GROUP LIMITED

Directors' Report

Your Directors present their report on the consolidated entity consisting of STW Communications Group Limited ("the Company") and the entities it controlled (collectively "the consolidated entity") at the end of, or during, the half-year ended 30 June 2014. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

DIRECTORS

The following persons were Directors of STW Communications Group Limited during the half-year and up to the date of this report:

Robert Mactier	(Non-executive Chairman)
Michael Connaghan	(Chief Executive Officer and Executive Director)
Paul Richardson	(Non-executive Director)
Ian Tsicalas	(Non-executive Director)
Graham Cubbin	(Non-executive Director)
Peter Cullinane	(Executive Director)
Kim Anderson	(Non-executive Director)

REVIEW OF OPERATIONS

Revenues for the period ended 30 June 2014 is \$190.3 million, up 9% (2013: \$174.0 million).

The profit for the period attributable to members of STW Communications Group Limited for the period ended 30 June 2014 was \$19.0 million, up 1.2% (2013: \$18.7 million).

Diluted earnings per share ("EPS") of 4.72 cents were up 0.9% (2013: 4.68 cents).

	Consolidated		Change
	30 June 2014 \$million	30 June 2013 \$million	
Total revenue (including share of net profits from associates)	200.6	182.9	9.7%
Earnings before interest, tax, depreciation and amortisation	39.3	38.1	3.1%
Net profit for the period after tax (before elimination of non-controlling interests)	24.1	23.2	3.8%
Non-controlling interests	(5.1)	(4.5)	
Net Profit	19.0	18.7	1.2%
	Cents per Share	Cents per Share	
Basic EPS – Profit for the period	4.72	4.68	0.9%
Diluted EPS – Profit for the period	4.72	4.68	0.9%

STW COMMUNICATIONS GROUP LIMITED

Directors' Report (continued)

CASH AND GROSS DEBT

As at 30 June 2014, the Group's cash and gross debt balances were \$27.2 million (31 December 2013: \$43.3 million) and \$183.2 million (31 December 2013: \$172.4 million), respectively.

DEBT FACILITIES

As at 30 June 2014, the Company has access to debt facilities totalling \$235 million, of which \$177.4 million is drawn.

Subsequent to the end of the half-year, the Company has entered into new debt facilities totalling \$35 million and in addition has received a credit approved term sheet (approval subject to customary conditions precedent) for the extension of \$100 million of debt facilities to August 2017. The original maturity date of the \$100 million of debt was January 2015 (\$75 million) and July 2015 (\$25 million). STW will have access to Australian core banking debt facilities of \$270 million that mature in August 2016 (\$70 million), July 2017 (\$35 million), August 2017 (\$100 million), August 2018 (\$40 million) and September 2018 (\$25 million).

CASH FLOW

The Company's operating cash flow result for the half-year increased compared to that of the prior year. Operating cash flow for the half-year was \$15.4 million (30 June 2013: \$7.2 million). The Group's cash flows were positively impacted by the timing of media payments and the improvement in working capital balances at 30 June 2014.

DIVIDENDS

Since the end of the half-year, the Directors have declared the payment of a fully franked ordinary dividend of \$13.3 million (3.3 cents per fully paid ordinary share), with a record date of 3 September 2014 and payable on 24 September 2014 (2013 interim dividend: 3.3 cents per share). The dividend represents a payout ratio of 70%.

The Directors have announced the introduction of a dividend reinvestment plan (DRP) allowing eligible shareholders to reinvest their dividends in the Company's shares. The DRP will apply to this dividend. The DRP pricing period for this dividend will be from 5 September 2014 to 15 September 2014 (inclusive). A 2.5% discount is applicable to shares issued under the DRP.

LEASES

During the year, the company entered into a sale and lease back arrangement of plant and equipment. The proceeds from sale were \$5.9m and will be repaid over a period of 5 years.

STW COMMUNICATIONS GROUP LIMITED

Directors' Report (continued)

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On the 15th July 2014, the Company completed the acquisition of 100% of Active Display Group (ADG). ADG is Australia's largest provider of retail marketing solutions – designing, manufacturing and implementing retail marketing campaigns.

The purchase consideration comprises of \$35.2 million at completion, deferred amounts of \$7.5 million and a capped earnout based on achieving performance measures to be funded from cash and increased debt facilities.

Other than the significant item outlined above and in Note 12 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, 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.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

ROUNDING OF AMOUNTS TO THE NEAREST THOUSAND DOLLARS

The Company is an entity of a kind referred to in ASIC Class Order 98/100, dated 10 July 1998 and in accordance with that Class Order, amounts in the Half-Year Financial Report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of Directors made pursuant to s306(3) of the *Corporations Act 2001*.

On behalf of Directors



Robert Mactier
Chairman
Sydney
14 August 2014



Michael Connaghan
Chief Executive Officer
Sydney
14 August 2014

The Board of Directors
STW Communications Group Limited
72 Christie Street
St Leonards, NSW 2065

14 August 2014

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 review of the financial statements of STW Communications Group Limited for the half-year ended 30 June 2014, 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 review;
and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



S C Gustafson
Partner
Chartered Accountants

STW COMMUNICATIONS GROUP LIMITED

Consolidated Statement of Profit or Loss

For the half-year ended 30 June 2014

	Notes	Consolidated	
		Half-year ended	
		30 June 14	30 June 13
		\$'000	\$'000
Continuing Operations			
Revenue		190,298	174,050
Other income	3(b)	5,534	4,601
Share of net profit of associates accounted for using the equity method	3(a)	4,766	4,283
		200,598	182,934
Employee benefits expense		(126,908)	(113,049)
Occupancy costs		(12,462)	(11,273)
Depreciation and amortisation expense		(4,277)	(4,066)
Travel, training and other employee related costs		(6,776)	(5,655)
Research, new business and other commercial costs		(3,889)	(3,472)
Office and administration costs		(7,957)	(8,241)
Compliance, audit and listing costs		(3,153)	(2,746)
Finance costs		(5,935)	(5,866)
Profit before income tax		29,241	28,566
Income tax expense	4	(5,119)	(5,316)
Profit for the period		24,122	23,250
Net profit attributable to:			
- members of the parent entity		18,952	18,736
- non-controlling interests		5,170	4,514
		Cents	Cents
Earnings per share:			
Basic earnings per share		4.72	4.68
Diluted earnings per share		4.72	4.68

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

STW COMMUNICATIONS GROUP LIMITED

Consolidated Statement of Profit or Loss and Other Comprehensive Income For the half-year ended 30 June 2014

	Notes	Consolidated	
		Half-year ended	
		30 June 14	30 June 13
		\$'000	\$'000
Net Profit		24,122	23,250
Other comprehensive income			
<i>Items that may be reclassified subsequently to the Consolidated Statement of Profit or Loss</i>			
Transactions with non-controlling interest		(15)	-
Exchange (loss)/gain arising on translation of foreign operations		(1,271)	6,229
Fair value (loss)/gain on cash flow hedges taken to equity		(162)	600
Income tax benefit/(expense) relating to components of other comprehensive income		49	(180)
Other comprehensive (loss)/income for the period (net of tax)		(1,399)	6,649
Total comprehensive income for the period		22,723	29,899
Total comprehensive income attributable to:			
- members of the parent entity		17,342	24,735
- non-controlling interests		5,381	5,164

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

STW COMMUNICATIONS GROUP LIMITED

Consolidated Statement of Financial Position

As at 30 June 2014

		Consolidated	
		30 June 14	31 Dec 13
	Notes	\$'000	\$'000
Current Assets			
Cash and cash equivalents		27,216	43,271
Trade and other receivables		160,544	169,491
Other current assets		6,398	5,328
Total current assets		194,158	218,090
Non-Current Assets			
Other receivables		14,733	16,478
Investments accounted for using the equity method		114,967	116,750
Other financial assets		624	583
Plant and equipment		33,702	33,703
Deferred tax assets		13,091	11,130
Intangible assets	7	511,146	505,156
Other non-current assets		2,086	836
Total non-current assets		690,349	684,636
Total assets		884,507	902,726
Current Liabilities			
Trade and other payables		162,482	172,144
Borrowings		79,965	215
Current tax liabilities		2,597	6,054
Provisions		10,082	8,239
Total current liabilities		255,126	186,652
Non-Current Liabilities			
Other payables		26,439	42,325
Borrowings		103,230	172,150
Deferred tax liabilities		1,633	2,642
Provisions		2,662	3,059
Total non-current liabilities		133,964	220,176
Total liabilities		389,090	406,828
Net Assets		495,417	495,898
Equity			
Issued capital		315,449	315,240
Reserves		25,602	27,228
Retained earnings		104,431	106,770
Equity attributable to members of the parent entity		445,482	449,238
Non-controlling interests		49,935	46,660
Total equity		495,417	495,898

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

STW COMMUNICATIONS GROUP LIMITED

Consolidated Statement of Changes in Equity

For the half-year ended 30 June 2014

Consolidated	Notes	Issued Capital	Equity Settled Share-based Payment Reserve*	Transactions with Non- controlling Interests Reserve*	Brand Name Revaluation Reserve*	Interest Rate Hedge Reserve*	Foreign Currency Translation Reserve*	Retained Earnings	Total	Non- Controlling Interests	Total Equity
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2014		315,240	178	5,149	16,275	(274)	5,900	106,770	449,238	46,660	495,898
Net profit		-	-	-	-	-	-	18,952	18,952	5,170	24,122
Other comprehensive income		-	-	(15)	-	(113)	(1,482)	-	(1,610)	211	(1,399)
Total comprehensive income		-	-	(15)	-	(113)	(1,482)	18,952	17,342	5,381	22,723
Non-controlling interests on acquisition and disposal of controlled entities and buy-out of non-controlling interests		-	-	-	-	-	-	-	-	(116)	(116)
Cost of share-based payments		-	193	-	-	-	-	-	193	-	193
Issue of executive share plan shares	6	209	(209)	-	-	-	-	-	-	-	-
Equity dividends provided for or paid	5	-	-	-	-	-	-	(21,291)	(21,291)	(1,990)	(23,281)
At 30 June 2014		315,449	162	5,134	16,275	(387)	4,418	104,431	445,482	49,935	495,417

The above consolidated 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 was 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.

STW COMMUNICATIONS GROUP LIMITED

Consolidated Statement of Changes in Equity (continued)

For the half-year ended 30 June 2014

Consolidated	Notes	Issued Capital	Equity Settled Share-based Payment Reserve*	Transactions with Non- controlling Interests Reserve*	Brand Name Revaluation Reserve*	Interest Rate Hedge Reserve*	Foreign Currency Translation Reserve*	Retained Earnings	Total	Non- Controlling Interests	Total Equity
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2013		313,829	2,153	5,149	16,275	(1,076)	(4,288)	90,649	422,691	40,744	463,435
Net profit		-	-	-	-	-	-	18,736	18,736	4,514	23,250
Other comprehensive income		-	-	-	-	420	5,579	-	5,999	650	6,649
Total comprehensive income		-	-	-	-	420	5,579	18,736	24,735	5,164	29,899
Cost of share-based payments		-	37	-	-	-	-	-	37	-	37
Issue of executive share plan shares	6	1,870	(1,870)	-	-	-	-	-	-	-	-
Equity dividends provided for or paid	5	-	-	-	-	-	-	(20,191)	(20,191)	(5,995)	(26,186)
At 30 June 2013		315,699	320	5,149	16,275	(656)	1,291	89,194	427,272	39,913	467,185

The above consolidated 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 was used to record the net upward revaluation of acquired brand names.
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- The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign controlled entities.

STW COMMUNICATIONS GROUP LIMITED

Consolidated Cash Flow Statement For the half-year ended 30 June 2014

		Consolidated	
		Half-year ended	
		30 June 14	30 June 13
	Notes	\$'000	\$'000
Cash Flows from Operating Activities			
Receipts from customers		548,297	509,038
Payments to suppliers and employees		(523,692)	(490,810)
Interest received		156	352
Interest and other costs of finance paid		(5,242)	(5,027)
Dividends and trust distributions received from associates		6,715	5,848
Income taxes paid		(10,823)	(12,220)
Net cash flows from operating activities		15,411	7,181
Cash Flows from Investing Activities			
Payments for purchase of newly controlled entities, net of cash acquired	8(d)	135	-
Payments for purchase of associates		-	(2,983)
Proceeds from sale of controlled entity	9	-	(489)
Earnout payments and intangible assets acquired		(11,882)	(12,171)
Payments for purchase of plant and equipment		(3,934)	(7,564)
(Payments to)/loans from associates		(2,978)	1,149
Net cash flows used in investing activities		(18,659)	(22,058)
Cash Flows from Financing Activities			
Proceeds from borrowings		148,082	122,000
Repayment of borrowings		(143,215)	(95,170)
Dividends paid to non-controlling interests		(1,990)	(5,883)
Equity holder dividends paid	5	(21,291)	(20,191)
Proceeds from sale and lease back		5,963	-
Payments on finance leases		(204)	-
Net cash flows (used in)/from financing activities		(12,655)	756
Net decrease in cash and cash equivalents		(15,903)	(14,121)
Effects of exchange rate changes on cash and cash equivalents		(152)	630
Cash at the beginning of the year		43,271	43,641
Cash at the end of the half-year		27,216	30,150

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

STW COMMUNICATIONS GROUP LIMITED

Notes to the Financial Statements

For the half-year ended 30 June 2014

Note 1. Basis of preparation of half-year ended 30 June 2014

Statement of Compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 'Interim Financial Reporting.' Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the annual report for the year ended 31 December 2013 and any public announcements made by STW Communications Group Limited during the interim reporting period.

Basis of Preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is a company of the kind referred to in ASIC class order 98/100, dated 10 July 1998, and in accordance with that class order amounts in the Directors' Report and the half-year financial report are rounded to the nearest thousand dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2013 annual report for the year ended 31 December 2013. These accounting policies are consistent with the Australian Accounting Standards and with International Financial Reporting Standards.

The Company has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board ("the AASB") that are relevant to the Company and effective for the current reporting period. The adoption of these new and revised accounting Standards and Interpretations have not resulted in changes to the Group's accounting policies.

Where necessary, comparatives have been reclassified and repositioned for consistency with current period disclosures.

Net Working Capital

As at 30 June 2014, the consolidated balance sheet shows current liabilities in excess of current assets by \$61.0 million. At 30 June 2014, the consolidated entity has secured loans totalling \$235 million (of which \$177.4 million is drawn at 30 June 2014).

Subsequent to the end of the half-year, the Company has entered into new debt facilities totalling \$35 million and in addition has received a credit approved term sheet (approval subject to customary conditions precedent) for the extension of \$100 million of debt facilities to August 2017. The original maturity date of the \$100 million of debt was January 2015 (\$75 million) and July 2015 (\$25 million). STW will have access to Australian core banking debt facilities of \$270 million that mature in August 2016 (\$70 million), July 2017 (\$35 million), August 2017 (\$100 million), August 2018 (\$40 million) and September 2018 (\$25 million).

STW COMMUNICATIONS GROUP LIMITED

Notes to the Financial Statements

For the half-year ended 30 June 2014

Note 2. 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, media investment management, television and print production services.

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.

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.

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 2 Segment Information.

STW COMMUNICATIONS GROUP LIMITED

Notes to the Financial Statements

For the half-year ended 30 June 2014

Note 2. Segment information

BUSINESS SEGMENTS

The following table presents revenue and profit information regarding business segments for the half-years ended 30 June 2014 and 30 June 2013:

	Advertising, Media and Production		Diversified Communications		Holding Company and Unallocated		Consolidated Entity	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Revenue from services	100,521	98,358	89,777	75,692	-	-	190,298	174,050
Share of net profit of associates	3,640	3,362	1,126	921	-	-	4,766	4,283
Other income	1,950	1,490	608	401	-	27	2,558	1,918
Segment Revenue	106,111	103,210	91,511	77,014	-	27	197,622	180,251
Segment Result (earnings before interest, tax and depreciation)	24,390	27,015	17,511	14,709	(2,604)	(3,578)	39,297	38,146
Depreciation and amortisation expense							(4,277)	(4,066)
Net interest							(5,779)	(5,514)
Profit before income tax							29,241	28,566
Income tax expense							(5,119)	(5,316)
Profit for the period							24,122	23,250
Net profit attributable to:								
- members of the parent entity							18,952	18,736
- non-controlling interests							5,170	4,514

STW COMMUNICATIONS GROUP LIMITED

Notes to the Financial Statements

For the half-year ended 30 June 2014

Note 3. Revenue

	Consolidated	
	Half-year ended	
	2014	2013
	\$'000	\$'000
Revenue for the half-year includes the following items:		
(a) Share of net profits of associates		
Equity share of associates' net profits	4,766	4,283
(b) Other income		
Interest income	156	352
Gain on fair value adjustment on non-current liability (deferred cash settlement)	2,820	2,331
Other income	2,558	1,918
	5,534	4,601

Note 4. Income Tax

	Consolidated	
	Half-year ended	
	2014	2013
	\$'000	\$'000
Profit from ordinary activities before income tax expense:	29,241	28,566
Tax at the Australian tax rate of 30% (2013: 30%)	8,772	8,570
Adjustments for current tax of prior periods	(42)	(117)
Tax adjustments resulting from equity accounting	(1,430)	(1,285)
Other items allowable for income tax purposes	(2,181)	(1,852)
Income tax expense reported in the income statement	5,119	5,316

STW COMMUNICATIONS GROUP LIMITED

Notes to the Financial Statements

For the half-year ended 30 June 2014

Note 5. Dividends

	Consolidated	
	Half-year ended	
	2014	2013
	\$'000	\$'000
Dividends declared and paid during the half-year:		
Final franked dividend for 2014: 5.3 cents per share (2013: 5.0 cents per share)	21,160	19,883
Dividends paid pursuant to the executive share plan ("ESP")	131	308
	21,291	20,191

Dividends not recognised at the end of the half-year

In addition to the above dividends, since the end of the half-year, the Directors have declared the payment of an interim dividend of 3.3 cents (2013: 3.3 cents) per fully paid ordinary share, fully franked at 30%. The aggregate amount of the proposed interim dividend expected to be paid on 24 September 2014 (10 September 2013), out of retained profits at the end of the half-year, but not recognised as a liability at the end of the half-year, is:

	13,326	13,326
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Note 6. Movement in ordinary shares on issue

	Consolidated		Consolidated	
	Half-year ended		Half-year ended	
	2014	2014	2013	2013
	Shares	\$'000	Shares	\$'000
At 1 January	400,943,304	315,240	397,643,679	313,829
Issue of executive share plan shares (i)	413,438	209	3,299,625	1,870
At 30 June (ii)	401,356,742	315,449	400,943,304	315,699

- (i) On 18 February 2014, these shares were transferred from being held in trust to being held by the relevant executive. These shares had at that time met the second vesting criteria in respect of their issue and as such became fully vested on that date.
- (ii) The total issued capital is net of treasury shares held by the Executive Share Plan of 2,471,770 (2013: 2,885,208). The total shares on issue is 403,828,512 (2013: 403,828,512).

STW COMMUNICATIONS GROUP LIMITED

Notes to the Financial Statements

For the half-year ended 30 June 2014

Note 7. Intangible assets

	Consolidated	
	Half-year ended June 2014 \$'000	Year ended Dec 2013 \$'000
Goodwill	444,994	438,969
Brand Names	57,027	57,027
Intellectual Property	9,125	9,160
Total intangible assets	511,146	505,156

	Goodwill \$'000	Brand names \$'000	Intellectual Property \$'000	Total \$'000
At 1 January 2013				
At cost	432,285	57,027	12,449	501,761
Accumulated impairment and amortisation	(3,267)	-	(2,961)	(6,228)
Net carrying amount	429,018	57,027	9,488	495,533
Year ended 31 December 2013				
Balance at the beginning of the year	429,018	57,027	9,488	495,533
Additions	-	-	649	649
Acquisition of subsidiary	11,847	-	-	11,847
Disposals	(8,445)	-	(417)	(8,862)
Net exchange differences on translation	10,977	-	-	10,977
Movements in the estimate of deferred cash settlements	(4,428)	-	-	(4,428)
Amortisation expense	-	-	(560)	(560)
Balance at the end of the year	438,969	57,027	9,160	505,156
At 31 December 2013				
At cost	442,236	57,027	12,681	511,944
Accumulated impairment and amortisation	(3,267)	-	(3,521)	(6,788)
Net carrying amount	438,969	57,027	9,160	505,156
Half-year ended 30 June 2014				
Balance at the beginning of the year	438,969	57,027	9,160	505,156
Additions	1,268	-	387	1,655
Acquisition of subsidiary (refer to Note 8)	530	-	-	530
Net exchange differences on translation	(1,151)	-	-	(1,151)
Movement in the estimate of deferred cash settlements	5,578	-	-	5,578
Other	(200)	-	-	(200)
Amortisation expense	-	-	(422)	(422)
Balance at the end of the half-year	444,994	57,027	9,125	511,146
At 30 June 2014				
At cost	448,261	57,027	13,068	518,356
Accumulated impairment and amortisation	(3,267)	-	(3,943)	(7,210)
Net book value	444,994	57,027	9,125	511,146

STW COMMUNICATIONS GROUP LIMITED

Notes to the Financial Statements

For the half-year ended 30 June 2014

Note 8. Business combinations

(a) Summary of acquisitions

During the half-year ended 30 June 2014:

On 1 January 2014, Senior Minds Pty Limited ("Junior") acquired an additional 51% of Cru Holdings Pty Limited ("Cru") increasing its ownership interest from 49% to 100%. Cru is a full service digital marketing agency which operates out of Brisbane.

On 23 May 2014, DT Digital Pty Limited ("DT Digital") acquired 100% of DTMillipede Pty Limited ("DT Millipede"). STW Media Services Pty Limited holds a 66.67% share in DT Digital. DTMillipede is a full service digital marketing agency which operates out of Melbourne.

Both acquisitions are expected to enhance STW's digital service offering.

The goodwill is attributable to the acquisitions strong earnings and synergies expected to arise after the date of acquisition. None of the goodwill is expected to be deductible for tax purposes.

During the half-year ended 30 June 2013:

No acquisitions of controlling interests were made during the half-year ended 30 June 2013.

(b) Goodwill

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

	Note	Consolidated Half-year ended 2014 \$'000
Purchase consideration:		
Fair value – equity accounted interest		197
Deferred cash settlement		356
Cash paid in the current period	8(d)	100
Total purchase consideration		653
Less: Fair value of net identifiable assets acquired	8(c)	(123)
Goodwill acquired		530

STW COMMUNICATIONS GROUP LIMITED

Notes to the Financial Statements

For the half-year ended 30 June 2014

Note 8. Business combinations

(c) Assets and liabilities acquired

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

	Consolidated Half-year ended 2014 \$'000
	Fair Value
Current assets	
Cash and cash equivalents	235
Trade and other receivables	438
Non-current assets	
Other non-current assets	1
Current liabilities	
Trade and other payables	(516)
Provisions	(35)
Net assets	123
Non-controlling interests in net assets acquired	-
Net identifiable assets acquired	123

(d) Net cash inflow on acquisition

	Consolidated Half-year ended 2014 \$'000
Inflow of cash from acquisition of controlled entities:	
Cash consideration paid	(100)
Cash balances acquired	235
Inflow of cash	135

The Group's equity interest in Cru before the business combination amounted to \$197,000 and no gain or loss was recognised on acquisition.

STW COMMUNICATIONS GROUP LIMITED

Notes to the Financial Statements

For the half-year ended 30 June 2014

Note 9. Disposal of subsidiary

There were no disposals for the 6 months ended 30 June 2014.

During the 2013 financial year, the Company disposed of its interest in Haines NZ Limited. The effective date of the transaction was 1 January 2013.

	Consolidated	
	Half-year ended	
	2014	2013
	\$'000	\$'000
(a) Consideration received		
Consideration received in cash and cash equivalents	-	-
Deferred proceeds	-	381
Total consideration	-	381
(a) Analysis of assets and liabilities over which control was lost		
Current assets		
Cash and cash equivalents	-	489
Trade receivables	-	912
Other receivables	-	405
Non-current assets		
Prepayments	-	86
Investments accounted for using the equity method	-	15
Plant & equipment	-	904
Deferred tax asset	-	23
Goodwill	-	8,445
Other intangible assets	-	417
Current liabilities		
Trade creditors	-	(562)
Other current payables	-	(2)
Provision for annual leave	-	(43)
Net assets disposed of	-	11,089
(b) Loss on disposal of subsidiary		
Deferred proceeds	-	381
Disposal of net assets	-	(11,089)
Foreign currency translation reserve	-	(523)
Charged to impairment provision	-	11,231
Loss on disposal	-	-
(d) Net cash outflow on disposal of subsidiary		
Consideration received in cash or cash equivalents	-	-
Cash and cash equivalent balances disposed of	-	(489)
Net cash outflow on disposal	-	(489)

STW COMMUNICATIONS GROUP LIMITED

Notes to the Financial Statements

For the half-year ended 30 June 2014

Note 10. Investments in Associates

Name	Ownership Interest	
	June 2014	Dec 2013
Amblique Pty Limited	40%	40%
Beyond Analysis Australia Pty Limited (iii)	49%	49%
Bohemia Group Pty Limited	37.5%	37.5%
Bullseye Group Pty Limited (iii)	40%	40%
Campaigns and Communications Group Pty Limited	20%	20%
CPR Vision Pte Limited (iii)	40%	40%
Cru Holdings Pty Limited (i)	-	49%
Enigma Communication Pty Limited (ii)	-	20%
Evocatif Pty Limited	49%	49%
Ewa Heidelberg Pty Limited (formerly i2i Communications Pty Limited)	49%	49%
Feedback ASAP Pty Ltd	20.4%	20.4%
Fusion Enterprises Pty Limited (iii)	49%	49%
Houston Group Pty Limited	40%	40%
Ikon3 LLC	20%	20%
Ikon Perth Pty Limited	45%	45%
J. Walter Thompson International Limited (New Zealand)	49%	49%
Jamshop Pty Limited	40%	40%
M Media Group Pty Limited and its subsidiaries	47.5%	47.5%
Marketing Communications Holdings Australia Pty Limited and its subsidiaries	49%	49%
Ogilvy Public Relations Worldwide Pty Limited and its subsidiaries	49%	49%
Paragon Design Group Pty Limited	49%	49%
Purple Communications Australia Pty Limited	44%	44%
Spinach Advertising Pty Limited	20%	20%
TaguchiMarketing Pty Limited	20%	20%
TCO Pty Limited	40%	40%
The Origin Agency Pty Limited	49%	49%

- (i) The Company purchased additional shares in this entity during the first half of the 2014 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. (Refer to note 8)
- (ii) The Company disposed of its interest in this entity during the first half of the 2014 year. The gain on disposal was immaterial.
- (iii) The Company purchased shares in this entity during the first half of the 2013 year.

STW COMMUNICATIONS GROUP LIMITED

Notes to the Financial Statements

For the half-year ended 30 June 2014

Note 11. Fair value measurement of financial instruments

The Group's activities expose it to a variety of financial risks: market 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 also has a number of financial instruments where the carrying amount approximates the fair value in the balance sheet as at 30 June 2014 and 31 December 2013. These are presented in the table below:

The carrying amount of the receivables, current payables and current borrowings is assumed to approximate their fair value. The carrying amount of the interest rate swap is measured at fair value.

	Jun 2014 Carrying Amount \$'000	Dec 2013 Carrying Amount \$'000	Jun 2014 Fair Value \$'000	Dec 2013 Fair Value \$'000
Financial assets				
Cash and cash equivalents	27,216	43,271	27,216	43,271
Trade and other receivables	175,276	185,969	175,276	185,969
Other financial assets	624	583	624	583
	203,116	229,823	203,116	229,823
Financial liabilities				
Trade and other payables (excluding deferred cash settlement and derivatives)	160,440	178,574	160,440	178,574
Deferred cash settlement	27,929	35,504	27,929	35,504
Secured bank loans	183,195	172,365	183,195	172,365
Derivative financial instruments	553	391	553	391
	372,117	386,834	372,117	386,834

(a) Fair value hierarchy and valuation techniques

The Group's financial assets and liabilities are measured and recognised at fair value at 30 June 2014 and 31 December 2013 based on the following fair value measurement hierarchy:

(i) Level 1 – shares in listed entities

Shares in listed entities are fair valued with reference to the market price on the New Zealand Stock Exchange as at 30 June 2014 and 31 December 2013;

(ii) Level 2 – interest rate hedge reserve

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;

(iii) Level 3 – deferred cash settlement and shares in other entities

The fair value of deferred cash settlements is calculated as the present value of estimated future payments based on a discount rate which approximates the Group's cost of borrowing. Expected cash inflows are estimated on the terms of the sale contract and the entity's knowledge of the business and how the current economic environment is likely to impact it. The shares in other entities have been disclosed at historical cost which is approximate of the fair value.

STW COMMUNICATIONS GROUP LIMITED

Notes to the Financial Statements

For the half-year ended 30 June 2014

Note 11. Fair value measurement of financial instruments (continued)

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 31 December 2013 and 30 June 2014:

At 30 June 2014	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Shares in listed entities	505	-	-	505
Shares in unlisted entities	-	-	119	119
Total Assets	505	-	119	624

Liabilities				
Deferred cash settlement	-	-	(27,929)	(27,929)
Derivatives used for hedging	-	(553)	-	(553)
Total Liabilities	-	(553)	(27,929)	(28,482)

At 31 December 2013	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Shares in listed entities	457	-	-	457
Shares in unlisted entities	-	-	126	126
Total Assets	457	-	126	583

Liabilities				
Deferred cash settlement	-	-	(35,504)	(35,504)
Derivatives used for hedging	-	(391)	-	(391)
Total Liabilities	-	(391)	(35,504)	(35,895)

There were no transfers between levels 1, 2 or 3 for fair value measurements during the year.

The Group's policy is to recognise transfers into and transfers out of the fair value hierarchy levels as at the end of the reporting period.

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 30 June 2014.

STW COMMUNICATIONS GROUP LIMITED

Notes to the Financial Statements

For the half-year ended 30 June 2014

Note 11. Fair value measurement of financial instruments (continued)

(b) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 instruments as at 30 June 2014 and 31 December 2013:

	Unlisted equity securities \$'000	Deferred cash settlement \$'000	Total \$'000
Opening balance 1 January 2014	126	(35,504)	(35,378)
Deferred cash settlement payments made during the period	-	10,127	10,127
Acquisition of subsidiaries and associates	-	100	100
Gain on fair value adjustment on non-current liability recognised in other income	-	2,820	2,820
Fair value adjustment on non-current liability recognised in the consolidated statement of financial position	-	(5,578)	(5,578)
Interest expense – deferred consideration payable	-	(692)	(692)
Foreign exchange loss	-	798	798
Other	(7)	-	(7)
Closing balance 30 June 2014	119	(27,929)	(27,810)

	Unlisted equity securities \$'000	Deferred cash settlement \$'000	Total \$'000
Opening balance 1 January 2013	142	(45,896)	(45,754)
Deferred cash settlement payments made	-	16,810	16,810
Acquisition of subsidiaries and associates	-	(10,080)	(10,080)
Gain on fair value adjustment on non-current liability recognised in other income	-	2,419	2,419
Fair value adjustment on non-current liability recognised in the consolidated statement of financial position	-	3,200	3,200
Interest expense – deferred consideration payable	-	(1,793)	(1,793)
Foreign exchange gain	-	(164)	(164)
Other	(16)	-	(16)
Closing balance 31 December 2013	126	(35,504)	(35,378)

STW COMMUNICATIONS GROUP LIMITED

Notes to the Financial Statements

For the half-year ended 30 June 2014

Note 11. Fair value measurement of financial instruments (continued)

(b) Fair value measurements using significant unobservable inputs (level 3) (continued)

Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements:

Description	Fair value at 30 Jun 2014 \$'000	Unobservable inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Deferred cash settlement	\$27,929	Risk-adjusted discount rate	Discount rate which reflects the weighted average interest rate of secured bank loans	An increase in the discount rate by 100bps would decrease the fair value by \$477,315. A decrease in the discount rate by 100bps would increase the fair value by \$492,103.
		Expected cash inflows	Profit before tax	If expected cash flows were 5% higher, the fair value would increase by \$2,166,814. If expected cash flows were 5% lower, the fair value would decrease by \$1,859,260.
Description	Fair value at 31 Dec 2013 \$'000	Unobservable inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Deferred cash settlement	\$35,504	Risk-adjusted discount rate	Discount rate which reflects the weighted average interest rate of secured bank loans	An increase in the discount rate by 100bps would decrease the fair value by \$526,374. A decrease in the discount rate by 100bps would increase the fair value by \$544,454.
		Expected cash inflows	Profit before tax	If expected cash flows were 5% higher, the fair value would increase by \$3,589,280. If expected cash flows were 5% lower, the fair value would decrease by \$3,347,655.

STW COMMUNICATIONS GROUP LIMITED

Notes to the Financial Statements

For the half-year ended 30 June 2014

Note 12. Subsequent Events

ACTIVE DISPLAY GROUP ACQUISITION

On the 15th July 2014, the Company completed the acquisition of 100% of Active Display Group (ADG). ADG is Australia's largest provider of retail marketing solutions – designing, manufacturing and implementing retail marketing campaigns.

The purchase consideration comprises of \$35.2 million at completion, deferred amounts of \$7.5 million and a capped earnout based on achieving performance measures to be funded from cash and increased debt facilities.

Full disclosure of the acquisition is not possible as the accounting implications of the acquisition were incomplete as at the date of issuing the financials due to the proximity of the acquisition to the date of issue. Full disclosure of the acquisition will be made in the annual accounts.

BANKING FACILITIES

Subsequent to the end of the half-year, the Company has entered into new debt facilities totalling \$35 million and in addition has received a credit approved term sheet (approval subject to customary conditions precedent) for the extension of \$100 million of debt facilities to August 2017. The original maturity date of the \$100 million of debt was January 2015 (\$75 million) and July 2015 (\$25 million). STW will have access to Australian core banking debt facilities of \$270 million that mature in August 2016 (\$70 million), July 2017 (\$35 million), August 2017 (\$100 million), August 2018 (\$40 million) and September 2018 (\$25 million).

Apart from the items disclosed above, there has not arisen, in the interval between the end of the interim period and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial periods.

STW COMMUNICATIONS GROUP LIMITED

Directors' Declaration

The Directors declare that:

- (a) in the directors' opinion, the financial statements and notes for the half-year ended 30 June 2014 as set out on pages 5 to 25 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 consolidated entity; and
- (b) 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.

Signed in accordance with a resolution of directors made pursuant to s 303(5) of the *Corporations Act 2001*.

On behalf of the directors



Robert Mactier
Chairman
Sydney
14 August 2014



Michael Connaghan
Chief Executive Officer
Sydney
14 August 2014

Independent Auditor's Review Report to the members of STW Communications Group Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of STW Communications Group Limited, which comprises the condensed statement of financial position as at 30 June 2014, and the condensed statement of profit or loss, the condensed statement of profit or loss and other comprehensive income, the condensed cash flow statement and the condensed statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 5 to 26.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the STW Communications Group Limited's financial position as at 30 June 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of STW Communications Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all

significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.


Auditor's Independence Declaration

In conducting our review, 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 review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of STW Communications Group Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the STW Communications Group Limited's financial position as at 30 June 2014 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



DELOITTE TOUCHE TOHMATSU



S C Gustafson
Partner
Chartered Accountants
Sydney, 14 August 2014