16.2.2011

ASX ANNOUNCEMENT

Results for six months ended 31 December 2010

PhotonGroup.

Photon Group Limited (ASX:PGA) today announced its results for the six months ended 31 December 2010.

Summary

- Following the recapitalisation process in the first quarter, the operational restructure is well progressed, the portfolio of businesses materially simplified, and the senior management team strengthened.
- Bank debt has been reduced from $274 million on 30 June 2010 to $126 million as at 31 January 2011 following recapitalisation and repayment of proceeds from sale of assets to Salmat.
- Net revenue and EBITDA are lower with financial performance of the International Agencies division continuing to be significantly lower than the same period last year.

Financial Performance

For the six month period ended 31 December 2010, Net Revenue and EBITDA are down 4% and 12% versus the same period last year. NPATA before significant items is up 44%.

Six months ended, A$ m	31 Dec 2010	31 Dec 2009
Net Revenue	188.1	196.3
EBITDA[1, 2]	32.9	37.3
NPAT[3] before significant items [4]	17.2	9.7
NPATA[3] before significant items[4]	20.3	14.1

Note:

1. 1H2010 EBITDA normalised for extraordinary and abnormal losses.
2. In 1H2011 the impact of non-cash equity incentive expenses was positive due to the write-back and reduction of costs associated with unvested options that have been forfeited. Net equity incentives in 1H2011 have had approximately $2.0 million positive impact, versus a $1.7 million expense in the same period last year.
3. 1H2011 NPAT includes $11.4 million non-cash benefit (net of $4.7 million non-cash deferred tax liability) due to revaluation of deferred consideration liabilities during the period.
4. Significant items include non-cash losses on sales of subsidiaries of $19.2 million (net of $2.2 million non-cash deferred tax benefit) and non-cash impairment charge of $36 million the carrying value of search marketing businesses.

- Net Revenue in the Australian Agency division is down 6% on the prior corresponding period and EBITDA is down 11% due to lower spending in 2Q2011 versus the prior period by a small number of significant clients;

- Net Revenue in the Field Marketing division is up 3% on the prior corresponding period, and EBITDA is up 6%;
- Net Revenue in the International Agency division is down 14% on the same period last year and EBITDA is down 41%. The main contributor of this variance continues to be the lower results of Naked and The Leading Edge versus the prior period. Excluding the results of these two businesses from the division performance, Net Revenue would have been down 6% and EBITDA up 8% on the prior period. Further, the impact of the stronger Australian dollar during the period had a $1.5 million negative impact on the EBITDA performance of this division.

Both Naked and The Leading Edge remain strong franchises. A number of factors, including uncertainty around Photon's recapitalisation in the first several months of the half, created some distraction for staff, clients and potential hires. Since the completion of the recapitalisation in September 2010, good progress has been made in recruiting new senior hires to both these businesses and positioning them for growth.

Operational Restructure

The focus of the first half of FY2011 has been on the operational restructure and strategic review. As at 31 December 2010, approximately half of the $6.2 million restructure provision has been utilised with further restructuring costs expected to be incurred during the remainder of the financial year. The restructure has focused on reducing complexity and improving efficiency. The total number of individual operating units was reduced from 45 at the beginning of the financial year to 26 at the end of December. During this period we merged a number of businesses, including BellamyHaden and Naked, Auspoll and The Leading Edge, Likemind and Corporate Edge, AdPartners and BWM and sold four businesses to Salmat In addition, we divested two marginal businesses to their management in January.

Following changes to the dynamics in the search marketing industry, a strategic review of the businesses in this division is being undertaken, including completion of the sale of a loss making business in the US in January. Photon continues to explore operational improvement programs across the group to achieve greater integration and efficiency.

Financial Position

Photon's bank debt balance at the end of January, following repayment of the $75.3 million proceeds from the asset sales, was approximately $126 million. New terms which Photon agreed with ANZ Bank became effective in January, with the total facility size reduced to $150 million for the remainder of the facility term to 30 September 2013 and a reduction in the interest rate margins. The company's leverage covenants have also been adjusted.

A further approximately $39 million of cash deferred consideration payments are expected to be due over the next four years. Further capped cash deferred consideration payments will become due if Photon hits certain EBITDA and leverage targets in the future, as outlined in Photon's prospectus of 17 August 2010.

Contact

Andrew Butcher
Butcher & Co
+61 400 841 088

PhotonGroup

Photon Group Limited
Fy2011 Half Year Results

16 February 2011

Executive Summary

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- Focus of the first half has been on the strategic review, operational restructure and improving operational performance
  - Strengthened management team - recent appointment of Craig Hart as Head of Field Marketing and Retail Agencies
  - Completed a number of operational mergers and asset sales – 26 individual operating units at the end of December, versus 45 at the beginning of the financial year
- Financial position improved following completion of recapitalisation and asset sales
  - Pay down of $75.3 million of debt in January 2011 and improved debt terms became effective
  - Net revenue down 4% and EBITDA down 12% on prior corresponding period (revenue flat and EBITDA down 8% on a common currency basis)
- Continuing to improve operational position and financial structure
  - Prioritise operational efficiencies, organic growth opportunities, deep digital expertise and targeted geographic expansion

Executive Summary

PhotonGroup

Profit & Loss Summary

SIX MONTHS ENDED 31 DECEMBER ($MILLIONS)	2010	2009	CHANGE
Revenue	289.8	330.7	(3.6%)
Net Revenue	188.1	196.3	(4.2%)
EBITDA[1,2]	32.9	37.3	(11.8%)
EBITDA Margin[3]	17.5%	19.0%	(1.5bp)
NPAT[4] before significant items[5]	17.2	9.7	78.1%
NPATA[4] before significant items[5]	20.3	14.1	43.9%
EPS[6] before significant items	1.1 cents	5.4 cents	
EPS-A[6] before significant items	1.3 cents	7.9 cents	

1. 1H2010 EBITDA normalised for extraordinary and abnormal losses
2. In 1H2011 EBITDA the impact of equity incentive expense was positive due to the write-back and reduction of costs associated with unvested options which have been forfeited. Net equity incentives in 1H2011 had a positive impact of $2 million versus a $1.7 million expense in the prior period
3. EBITDA Margin is EBITDA / Net Revenue
4. 1H2011 NPAT includes $11.4 million non-cash benefit (net of $4.7 million non-cash deferred tax liability) due to revaluation of deferred consideration liabilities during the period
5. Significant items includes non-cash losses on sale of subsidiaries of $19.2 million (net of $2.2 million non-cash deferred tax benefit) and non-cash impairment of $36 million of carrying value of search marketing businesses (refer slide 14)
6. EPS based on closing shares on issue 1H2011 = 1,540,343,357 (1H2010 = 178,416,628)

Operational Update

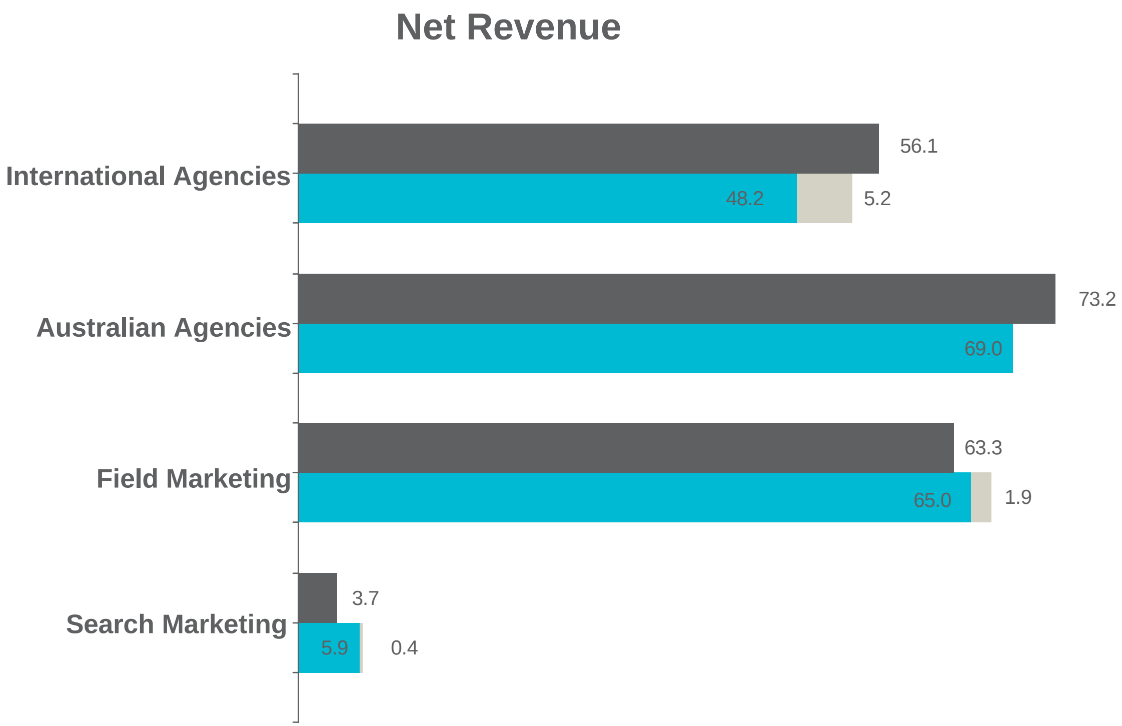
Operational Update

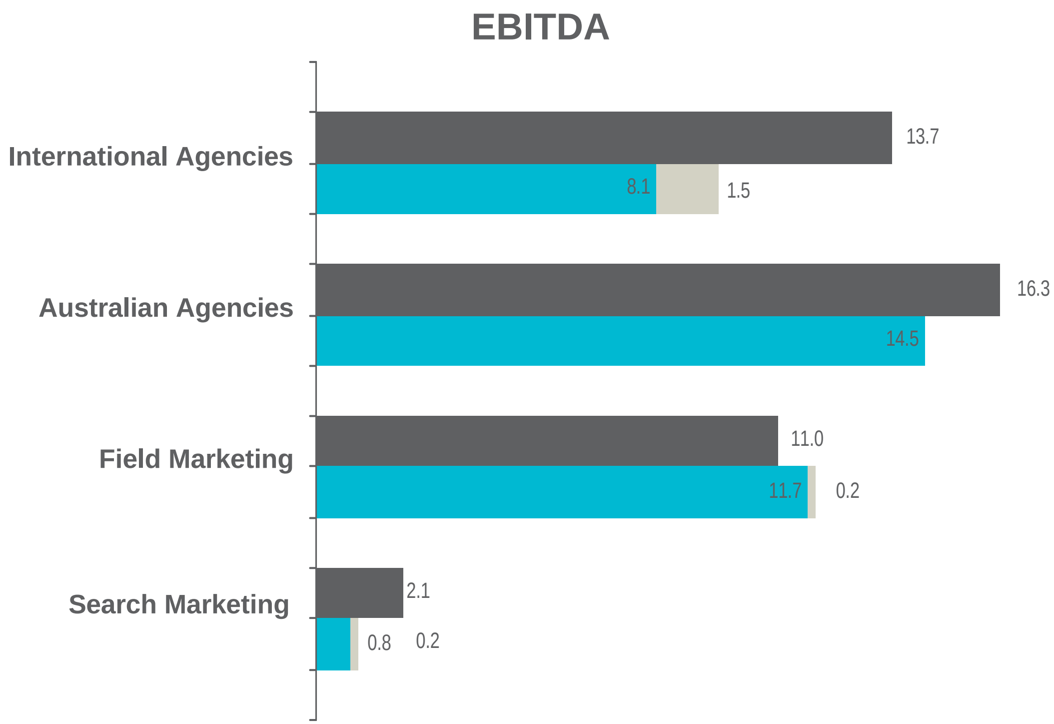
Operational Restructure

- Focus of the first half has been on the operational restructure and strategic review
  - At 31 December 2010 utilised approximately half of restructure provision - restructuring costs expected to continue be incurred in 2H2011
- Reduce complexity and improve efficiency – total number of individual operating companies reduced from 45 at the beginning of FY2011 to 26 at the end of December
  - A number of mergers have been completed – including BellamyHayden & Naked, Likemind & Corporate Edge, Auspoll & The Leading Edge, promotional agencies, AdPartners & BWM
  - Sale of four businesses to Salmat and divestment of marginal businesses to management completed in January 2011
- Photon is continuing its strategic review
  - Examining its remaining Search Marketing businesses considering future capital requirements, expected return on investment and impact of recent changes in market dynamics
  - Operational improvement programs being explored across the group – greater integration, streamlined back-office functions, centralised HR and IT functions

Operational Update

Division Net Revenue & EBITDA





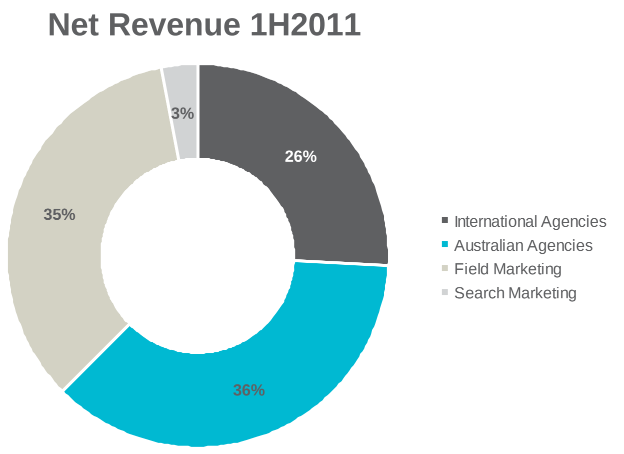
1H2010

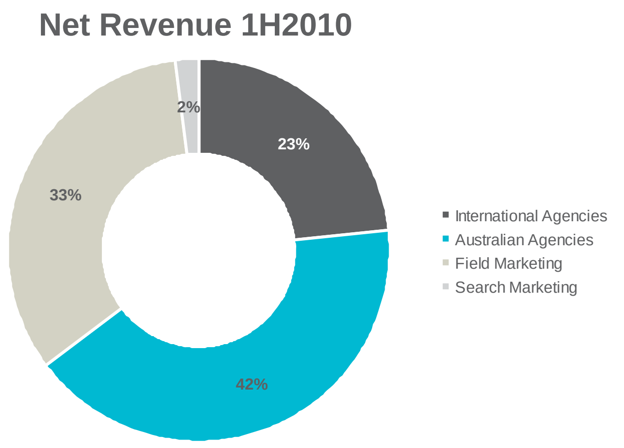
1H2011

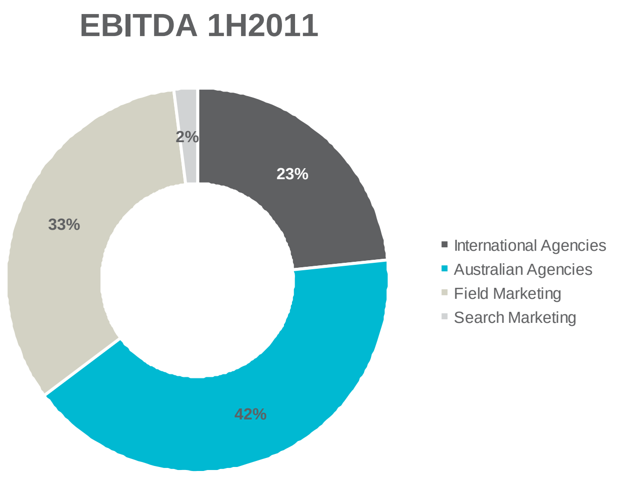
1H2011 Impact of currency movement

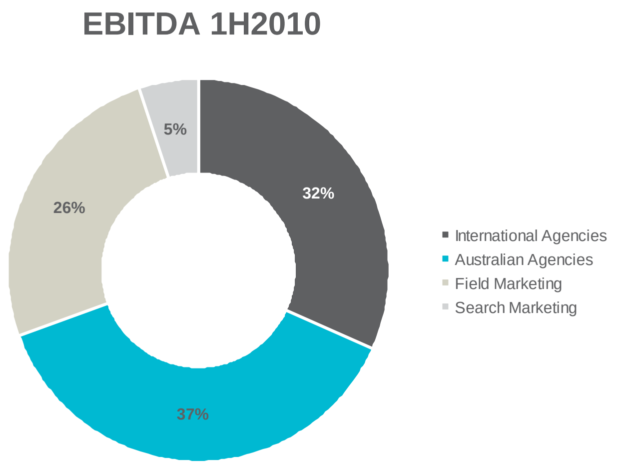
Operational Update

Division Contribution









Excludes Head Office costs .

Operational Update

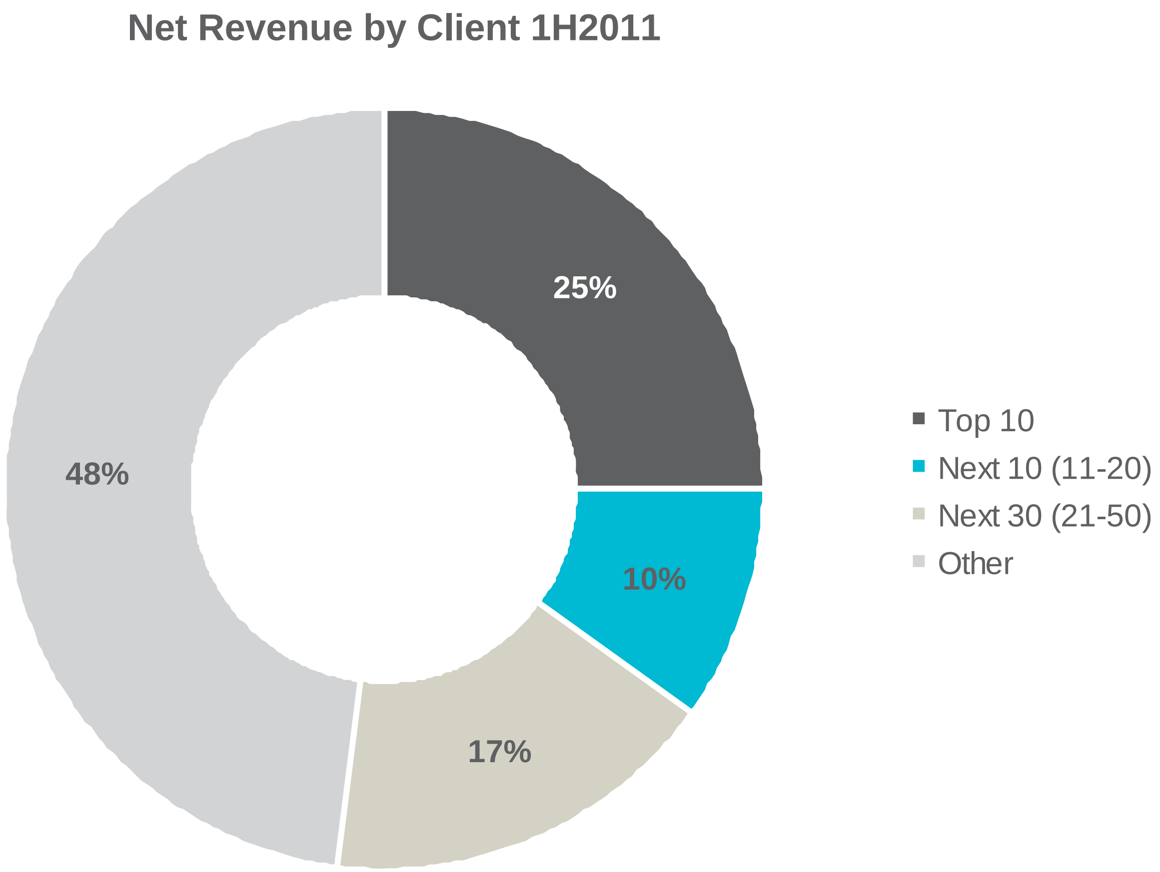
First Half Performance

- International Agencies net revenue is down 14% and EBITDA is down 41% on the prior period (down 5% and 34% respectively on a constant currency basis)
  - Main contributor continues to be the performance of Naked and The Leading Edge versus the prior period
  - Senior hires made during last quarter
- Australian Agencies net revenue is down 6% and EBITDA is down 11% against 1H2010
  - Weaker performances in November and December versus the prior period in a number of agencies – lower spending by a small number of significant clients
- Field Marketing net revenue and EBITDA is up 3% and 6% respectively on the same period in FY2010 (up 6% and 8% respectively on a constant currency basis)
- Following changes to market dynamics in the search marketing industry a strategic review of the businesses in the division being undertaken
  - Loss making operations in the US divested in January 2010

Operational Update

Net Revenue by Client

- Stability in top 20 clients versus same period last year – key movements driven by changes in client spend rather than wins or losses of clients.



Operational Update

Employee Incentives Update

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- A review of incentive structures across the group is ongoing with new arrangements being implemented as required, including Naked Communications
- Although details vary across the group, typical arrangements provide for management receiving a share of EBITDA growth above certain targets in-line with existing performance, however may also include direct equity incentives in the businesses they are running
- Group long-term equity incentive plan to be implemented in 2H2011 to align management (ex. CEO) and shareholders – approx. 100 million share appreciation rights to be issued

Half Year Financials

Half Year Financials

Profit & Loss Summary

SIX MONTHS ENDED 31 DECEMBER ($MILLIONS)	2010	2009	CHANGE
Net Revenue	188.1	196.3	(4.2%)
Staff Costs	(125.4)	(129.6)	(3.2%)
Other Expenses	(29.8)	(29.4)	1.4%
EBITDA[1,2]	**32.9**	**37.3**	**(11.8%)**
EBITDA Margin[3]	17.5%	19.0%	
Depreciation & Amortisation	(8.5)	(10.3)	(17.5%)
EBIT	24.4	27.0	(9.6%)
Net Interest	(9.8)	(9.0)	8.9%
PV Interest on deferred consideration	(5.2)	(3.1)	67.7%
FV gain on deferred consideration	16.1	-	nm
Tax[4]	(8.3)	(5.0)	66.0%
NPAT before significant items[5]	**17.2**	**9.7**	**77.3%**
NPATA before significant items[5]	**20.3**	**14.1**	**44.0%**

1. 1H2010 EBITDA normalised for extraordinary and abnormal losses
2. In 1H2011 EBITDA the impact of equity incentive expense was positive due to the write-back and reduction of costs associated with unvested options which have expired. Net equity incentives in 1H2011 had a positive impact of $2 million versus a $1.7 million expense in the prior period
3. EBITDA Margin is EBITDA / Net Revenue
4. Tax includes $4.7 million non-cash deferred tax liability associated with fair value gain on deferred consideration
5. Significant items includes non-cash losses on sale of subsidiaries of $19.2 million (net of $2.2 million non-cash deferred tax benefit) and non-cash impairment of $36 million of carrying value of search marketing businesses (refer slide 14)

Half Year Financials

Profit & Loss Summary cont'd

- The divestments completed to date in FY2011 crystallised a non-cash loss on sale of $22 million (net of deferred tax benefit), of which $19 million has been recognised in the first half
- Photon has assessed the carrying value of the remainder of the Search Marketing businesses in light of the changing market dynamics and incremental capital requirements and recorded a non-cash impairment of $36 million

SIX MONTHS ENDED 31 DECEMBER ($MILLIONS)	2010	2009
NPAT before significant items	17.2	9.7
Non-cash loss on sale (net of tax)	(19.2)	(3.9)
Non-cash impairment	(36.0)	(2.9)
Reported NPAT	(38.0)	2.9

1. 1H2010 loss on sale represents post tax impact of sale of Geekversity and 1H2010 impairment includes non-cash adjustment of 30% interest in Dark Blue Sea following completion of takeover

Half Year Financials

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Balance Sheet & Cash Flow

31 DECEMBER ($MILLIONS)	2010
Cash	20.5
Working Capital	21.8
Receivable on Sale of Subsidiary	75.3
Other Assets	12.6
Fixed Assets	14.3
Intangibles	493.9
Total Assets	**638.4**
Provisions & Other Liabilities	12.7
Deferred Consideration (PV)	114.7
Non-current Borrowings	191.8
Other Borrowings	4.0
Net Assets	**315.2**

SIX MONTHS ENDED 31 DECEMBER ($MILLIONS)	2010	2009
EBITDA	32.9	37.3
Movement in Working Capital[1]	(5.2)	(1.5)
Release of Restructure Provision	(3.0)	-
Equity Incentive (Benefit) / Expense	(2.0)	1.7
Gross Cash Flow	22.7	37.5
Net Interest Paid	(9.8)	(9.0)
Tax	(4.6)	(11.9)
Operating Cash Flow	8.3	16.6
Capex	(3.8)	(6.6)
Free Cash Flow	**4.5**	**10.0**

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

Half Year Financials

Debt Profile

- Proceeds from sale of businesses to Salmat of $75.3 million were used to repay debt in January 2011 - improved facility terms including margin became effective at that time

- Facilities term to 30 September 2013

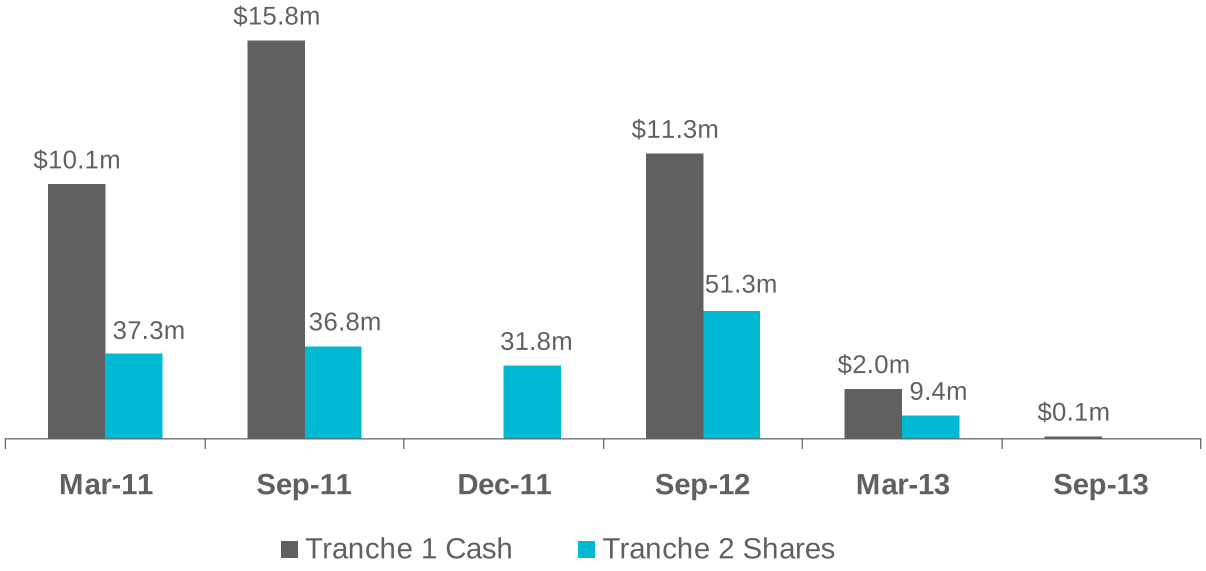
	31 DECEMBER 2010		31 JANUARY 2011	
($MILLIONS)	FACILITY	DRAWN	FACILITY	DRAWN
Total Cash Advance Facilities	**230**	**192**	**150**	**126**
Interest Cover	>3.0x	3.1x	>3.0x	4.1x
Leverage Ratio	<3.5x	2.9x	<2.75x	2.3x
Capitalisation Ratio	<55%	50%	<55%	44%

1. 31 Jan 2011 covenants pro-formed for debt repayment from asset sale proceeds in January 2011 and LTM EBITDA / EBITA of assets sold. Actual Leverage Ratio at 31 January 2011 is 1.9x

Half Year Financials

Deferred Consideration Profile

- Deferred consideration outstanding of $131 million – present value of liability of $115 million
  - Tranche 1 – $39 million cash payments (profile as per below)
  - Tranche 2 – 167 million shares to be released from escrow
  - Tranche 3A & 3B – EBITDA triggers adjusted for divestments to $76.5 million and $86.5 million respectively



In two cases vendors have an election (at their sole discretion) as to the payment dates. It has been assumed that they will elect the latest payment date. If certain venders whose payments are shown in September 2012 above were to elect to receive their payments in September 2011, up to $9.5 million cash will be paid and up to 40 million shares will be released at that time. If certain vendors whose payments are shown in March 2013 above were to elect to receive their payments in March 2012, up to $2.0 million cash will be paid and up to 9.4 million shares will be released at that time.

NOMINAL DEFERRED CONSIDERATION LIABILITY	$ MILLION
Opening Estimate (30 June 2010)	178.9
Impact of Restructure (30 Sept 2010)	(6.7)
Payments in 1H2011	(32.8)
FX Revaluations	(8.3)
Closing Estimate (31 Dec 2010)[1]	**131.1**

1. An additional $3.6 million of capped liability is considered unlikely to be paid.

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Appendix

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Division Net Revenue & EBITDA

SIX MONTHS ENDED 31 DECEMBER ($MILLIONS)	2009	CURRENCY MOVEMENT	2009 CONSTANT CURRENCY	ORGANIC MOVEMENT	2010
International Agencies	56.1	(5.2)	50.9	(2.7)	48.2
Australian Agencies	73.2	-	73.2	(4.2)	69.0
Field Marketing	63.3	(1.9)	61.4	3.6	65.0
Search Marketing	3.7	(0.3)	3.4	2.5	5.9
Total Net Revenue	**196.3**	**(7.4)**	**188.9**	**(0.8)**	**188.1**
International Agencies	13.7	(1.5)	12.2	(4.1)	8.1
Australian Agencies	16.3	-	16.3	(1.8)	14.5
Field Marketing	11.0	(0.2)	10.8	0.9	11.7
Search Marketing	2.1	(0.2)	1.9	(1.1)	0.8
Head Office	(5.8)	0.2	(5.6)	3.3	(2.3)
Total EBITDA	**37.3**	**(1.7)**	**35.6**	**(2.7)**	**32.9**

1. 1H2011 Average FX Rates: GBP:AUD = 1: 1.6607; USD:AUD = 1:1.0613. 1H2010 Average FX Rates: GBP:AUD = 1: 1.7892; USD:AUD = 1:1.1335