

16 February 2010

ASX/MEDIA RELEASE

PHOTON ANNOUNCES FIRST HALF RESULTS

Photon Group Limited (ASX:PGA), Australia's largest marketing and communications group today announced its first half results, key summary of which includes:

- Revenue decreased 10% to \$300.7 million
- Net revenue decreased 11% to \$196.3 million
- EBITDA (pre non-recurring losses) decreased 7% to \$37.3 million
- Net profit after tax (pre non-recurring losses) increased 2% to \$9.7 million
- Interim dividend of 3 cents per share fully franked

Executive Chairman of Photon, Mr Tim Hughes said today "The first half result was impacted by softer economic conditions, the strong Australian dollar and underperformance of the Internet & E-commerce division. However three of our divisions continued to perform very strongly with the combined EBITDA from the Strategic Intelligence, Integrated & Digital and Specialised Communications divisions up 37% to \$24.4 million. We are pleased with the margin improvements we have been able to achieve across the group with the overall EBITDA margin increasing from 18% to 19%, as a result of the cost reduction activities which took place during 2009."

Mr Hughes said, "The key initiatives for 2010 will focus on expanding Photon's world class marketing talent across new geographies and markets. Photon has a good track record of leveraging its existing talent into new markets. During the last 12 months seven of our businesses have entered new markets. We expect to continue the roll out of a number of our companies, such as Naked, Hotwire, Frank PR and The Leading Edge into new markets during the next 12 months. These activities will establish a platform for further growth over the next few years."

Mr Hughes continued "The worst is behind us and we expect the second half to be a better result as we are seeing good economic activity and we are operating offer a lower cost base. We have commenced the search for a new CEO following the resignation of Matt Bailey. The board has also decided to appoint two new independent directors."

Directors have declared an interim fully franked dividend of 3 cents per share, payable on 30 March 2010.

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PhotonGroup

Photon Group Interim Results Presentation

16 February 2010

Agenda

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Executive Summary

- First half result was impacted by softer economic conditions, strong Australian dollar and underperformance of the Internet & E-Commerce division
- Net revenue fell 11% on prior period to \$196.3 million. EBITDA (pre non-recurring losses) decreased 7% on the prior period to \$37.3 million
- Strategic Intelligence, Integrated Communications and Specialised Communications combined EBITDA was up 37% to \$24.4 million – client wins, growth of existing clients and margin improvement
- Good margin improvements across the group as a result of cost improvement actions in 2009 – group EBITDA margin increased from 18% to 19%
- Proceeds of rights issue used to pay down \$111 million of debt in September 2009 – all current maturities refinanced to 2012. Annual dividend payout reduced to 50% with interim dividend of 3 cps fully franked
- Management is focused on organic growth by sharing costs and working together on new business
- We intend to leverage existing assets into new markets which will drive growth over the next few years
- New CEO search has been activated. Board will also be expanded by adding two new independent directors
- Worst is behind us. Second half expected to be a better result as we are seeing good economic activity and we are operating off a lower cost base

Profit & Loss Summary

| A\$ million | | | |
|---|-----------|-----------|--------|
| Six months ended 31 December | 2010 | 2009 | Change |
| Revenue | \$300.7m | \$333.2m | (10%) |
| Net Revenue | \$196.3m | \$221.6m | (11%) |
| EBITDA (pre non-recurring losses) ² | \$37.3m | \$40.3m | (7%) |
| EBITDA Margin ¹ | 19.0% | 18.2% | 4% |
| Net Profit after minorities (pre non-recurring losses) ² | \$9.7m | \$9.5m | 2% |
| EPS (pre non-recurring losses) ³ | 6.2 cents | 8.8 cents | |
| Payout ratio (annual) | 50% | 50% | |
| Interim Dividend (ff) | 3.0 cents | 6.0 cents | |

1. EBITDA margin is EBITDA / Net Revenue

2. Non-recurring losses in FY2010 include \$5.6 million of losses (pre tax) associated with the exit from Geekversity, and \$3.1 million impairment charge of Dark Blue Sea (DBS) as a result of completion of the takeover and transaction costs. Non-recurring losses in FY2009 comprise \$4.2 million impairment charge of DBS.

3. WANOS 1H2010 of 155,795,404 (1H2009 of 106,617,396)

2010 Focus - Expansion of Existing Businesses

Photon has a track record of leveraging existing network into new markets

2009 Expansion

- Frank PR entered Australian market
- Naked opened offices in Sweden and Denmark
- Demonstrations Plus brand launched in the UK
- CPR opened a UK public affairs office
- REL launched a hardware division in Australia
- Bailey Group launched a NZ presence
- Retail Insight launched its data offering in Australia

2010 Expansion Plans

- Naked to launch a second US office (Chicago)
- Hotwire and Frank PR assessing entry into US market
- Advertising agency micro-network – US, UK, NZ, Australia
- Exploring a content creation entity
- Retail Insight to review US launch
- The Leading Edge reviewing a US office

Division Overviews & Outlook



First Half Division EBITDA

| A\$'000s Six months ended 31 Dec | 2010 | 2009 | Change | 2009 at 2010 FX rates ¹ | Common Currency Change |
|-------------------------------------|---------------|---------------|-------------|--|------------------------------|
| Strategic Intelligence | 7,267 | 4,942 | 47% | 4,533 | 60% |
| Integrated Comms & Digital | 9,422 | 5,420 | 74% | 5,389 | 75% |
| Field Marketing | 12,928 | 15,035 | (14%) | 14,693 | (12%) |
| Internet & E-Commerce | 5,755 | 12,054 | (52%) | 11,389 | (49%) |
| Specialised Communications | 7,716 | 7,501 | 3% | 6,806 | 13% |
| Total Divisions | 43,008 | 44,952 | (4%) | 42,810 | 0% |
| Service Centre ² | (5,809) | (4,681) | (24%) | (4,685) | (24%) |
| Total Group | 37,279 | 40,271 | (7%) | 38,125 | (2%) |

1. 1H2010 average FX rates: 1AUD=0.87USD, 1AUD=0.53GBP (1H2009 average FX rates: 1AUD=0.76USD, 1AUD=0.45GBP)

2. 1H2010 includes \$760k of redundancy and excess rent expenses which were incurred by the service centre

Division Contribution



1H2009 Net Revenue

- Strategic intelligence 17%
- Integrated Communications and Digital 19%
- Field Marketing 33%
- Internet & E-Commerce 11%
- Special Communications 19%



1H2010 Net Revenue

- Strategic intelligence 17%
- Integrated Communications and Digital 22%
- Field Marketing 34%
- Internet & E-Commerce 9%
- Special Communications 18%



1H2009 EBITDA

- Strategic intelligence 11%
- Integrated Communications and Digital 12%
- Field Marketing 33%
- Internet & E-Commerce 27%
- Special Communications 17%



1H2010 EBITDA

- Strategic intelligence 17%
- Integrated Communications and Digital 22%
- Field Marketing 30%
- Internet & E-Commerce 13%
- Special Communications 18%

Excludes service centre and non-recurring losses

Strategic Intelligence

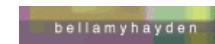
Independent communications advisory and market research

YTD Performance

- Strong growth continues in Naked's strategic consulting offering – authority on how global brand can integrate marketing communications
 - UK and US markets over-performed with the growth of existing clients and new client wins – Samsung, BP
 - Naked broadened its Nordic presence with offices in Sweden and Denmark
 - Good growth in the AsiaPac markets (Australia, NZ and Japan)
- Research market still soft after declining revenues in 2H2009 as clients halted testing ideas for new products, services and marketing strategies – pipeline is improving
- Significant cost base re-alignment in certain businesses during 2H2009 (including 13% reduction in headcount) has resulted in improved margins – 13% in 1H2009 to 21% in 1H2010

2010 Initiatives

- Improvement in research spending pipeline will drive growth in research businesses
- The Leading Edge has appointed a new CEO with global credentials
- Improved margin across all businesses will drive more profitable revenue growth
- Naked expected to continue to perform well across all jurisdictions
- Naked to launch second US office and explore other markets in 2010; The Leading Edge to launch US offering



Integrated Communications & Digital

World class advertising agencies and below the line agencies

YTD Performance

- Very strong performance continues for leading agencies with continued growth of new and existing clients – EBITDA up 74% on 1H2009
- Photon's agencies were beneficiaries of the trend of appointing best of breed local specialists
- Clients concentrated in non-cyclical sectors - FMCG, beverages, banking and telecommunications – locally based decision makers
- Partnered with many other Photon agencies to grow divisional revenue streams
 - BWM, Brass Tacks & Kaleidoscope – Sanitarium
 - BeRetail, Mark Comms, Artel & Bailey – Junior Masterchef
- BMF won B&T Agency of the Decade and NSW Agency of the Year

2010 Initiatives

- Expect double digit EBITDA growth to continue in 2H2010
- Agency group expected to continue to grow existing base of key clients while targeting new client opportunities
- Strong focus on growth areas i.e. digital campaigns and mobile promotions
- Continue to partner with other divisions of Photon as part of broader service offerings
- Exploring international mirco-network structure to take our best of breed agencies to international markets



PARTNERS



CORPORATEDGE



Be.interactive

Field Marketing

Outsourced sales execution, merchandising and demonstrations

YTD Performance

- Significant new contract wins in FY2009 across the division created a larger base for growth
- A number of one-off projects in 1H2009 have not been repeated in this half but the number of clients continues to grow
- Investment in new offerings and offices – e.g. conflict brands in hardware and demonstrations
- Some clients have cut back spending due to budget constraints (particularly US based clients) – opportunity to leverage increased spend as budget constraints are lifted
- Partnered with other Photon companies to provide cross-divisional revenue growth
 - Club Sales & Mark Comms – Goodness Superfoods
 - Demonstrations Plus & BMF – promotional activities
- Increased integration of back-end systems and resources such as IT, casual labour and finance
- REL won Field Marketing Agency of the Year 2009 (Marketing Magazine)

2010 Initiatives

- Expect FY2010 EBITDA to be in-line with last year's EBITDA after greater than 20% growth in FY2009
- Seek continued growth in existing customer relationships
 - Higher margin additional services
 - Partnering with other Photon agencies as part of broader service offering
- Continue to expand offerings internationally – REL, Retail Insight, Demonstrations Plus



Internet & Commerce

Digital marketing services, product development and on-line marketing

YTD Performance

- Decline in EBITDA from 1H2009 due to underperformance of Geekdom business, softer US online advertising conditions and investment in new product development
- Geekversity business was divested in December 2009 resulting in non-recurring losses of \$5.6 million in 1H2010
- Acquisition of Dark Blue Sea completed in December - expected to have a small positive contribution from 2H2010 after reduction in corporate costs
- Division is being restructured into two separate offerings – digital agency services and online marketing
- Digital agencies have partnered with many other Photon agencies to grow cross-divisional revenues
 - Returnity & BWM – Simplot
 - C4 & BMF – Commonwealth Bank
 - Found & ISS – Novatis
- C4 won inaugural Ultimate Sports Website Award

2010 Initiatives

- Complete division restructure. Consolidation of product development and diversification away from search arbitrage to reduce volatility in revenue streams
- Opportunity to leverage portfolio of over 400,000 domains owned across the division to create online advertising revenue streams
- Expect to see some improvement in US online advertising market
- Launch of new products and software currently in development phase

Specialised Communications

Public relations, public affairs, corporate communications & events

YTD Performance

- Public relations companies continue to grow strongly – beneficiaries of increased share of spend and sector consolidation
- Development of conflict brands and co-operation across Photon companies
 - Frank 33 – digital consumer PR offering from Frank PR and Hotwire
 - Collaboration between CPR UK and Hotwire
- Seeing return to growth in corporate communications and event management businesses which suffered in 2H2009 due to reduced client spend and exposure to M&A and equity raising markets
- Cost base restructuring over the last 12 months across these business (including 12% reduction in headcount) has improved margin significantly – 18% in 1H2009 to 22% in 1H2010
- Frank PR won European Consumer PR Agency of the Year (Holmes Report)

2010 Initiatives

- Expect EBITDA growth to continue in 2H2010
- Good visibility on public relations due to retainer nature of revenue
- Recovery in corporate communications and event marketing expected to continue – revenue growth on higher margins
- Frank PR and Hotwire looking to expand their offerings to the US in 2010



Half Year Financials

Profit & Loss Summary

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| EBITDA (pre non-recurring losses) ² | \$37.3m | \$40.3m | (7%) |
| EBITDA Margin ¹ | 19.0% | 18.2% | 4% |
| Net Profit before tax (pre non-recurring losses) ² | \$14.8m | \$15.9m | (7%) |
| Net Profit after minorities (pre non-recurring losses) ² | \$9.7m | \$9.5m | 2% |
| EPS (pre non-recurring losses) ³ | 6.2 cents | 8.8 cents | |
| Payout ratio (annual) | 50% | 50% | |
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Profit & Loss Summary

- Exit from Geekversity on-line training business resulted in \$5.6 million of non-recurring losses (pre tax) for the half – no material ongoing exposure to this business
- Completion of acquisition of Dark Blue Sea resulted in a non-cash adjustment of existing 30% interest to the final takeover price of 35 cents per share

| A\$ million | | | |
|--|----------|----------|--------|
| Six months ended 31 December | 2010 | 2009 | Change |
| Net Profit after minorities (pre non-recurring losses) | \$9.7m | \$9.5m | 2% |
| Non-recurring losses associated with Geekversity exit | \$(3.9)m | - | |
| Non-cash impairment of DBS holding & transaction costs | \$(2.9)m | \$(4.2)m | |
| Reported Net Profit after minorities | \$2.9m | \$5.3m | |

Balance Sheet & Cash Flow

| A\$ million | 31 Dec 2009 | 30 June 2009 |
|-------------------------------------|----------------|-----------------|
| Cash | 27 | 24 |
| Working Capital | 37 | 45 |
| Financial Assets (DBS Investment) | - | 10 |
| Other Assets | 16 | 15 |
| Fixed Assets | 19 | 21 |
| Intangibles | 617 | 581 |
| Total Assets | 716 | 695 |
| Provisions and Other Liabilities | 30 | 39 |
| Payable for DBS shares ¹ | 20 | - |
| Deferred Consideration | | |
| Current | 50 | 67 |
| Non-current | 20 | 20 |
| Borrowings | | |
| Current | - | 34 |
| Non-current | 229 | 240 |
| Other | 6 | 6 |
| Net Assets | 362 | 265 |

| A\$ million | 2010 | 2009 |
|---------------------------------------|-------------|-------------|
| Six months ending 31 December | | |
| EBITDA (pre non-recurring losses) | 37.2 | 40.3 |
| Movement in working capital | 0.3 | (8.5) |
| Gross cash flow | 37.5 | 31.8 |
| Net interest paid | (9.0) | (11.9) |
| Other | - | 0.1 |
| Tax | (11.9) | (12.1) |
| Operating cash flow | 16.6 | 7.9 |
| Capex | (6.6) | (5.1) |
| Free cash flow (pre dividends) | 10.0 | 2.8 |

1. Payment for DBS shares under the takeover offer which was completed in January 2010

Outlook

- We continue to experience solid trading in Specialised Communications, Strategic Intelligence and Integrated Communications & Digital – expect each of these divisions will good EBITDA growth over the prior year
- Field Marketing expected to be in-line with last year's strong performance
- The strategic review and restructure of the Internet & E-Commerce division is almost complete and there is expected to be an improvement in the second half performance
- No material acquisitions being considered
- Executive search underway for replacement CEO and two additional independent directors

Appendices

Debt Profile

| A\$ million 31 December 2010 | Facility Limit | Term | Drawn ¹ | Av. Interest Rate |
|---------------------------------|----------------|----------|--------------------|----------------------|
| Facility A2 | \$46m | March 11 | \$6m | 8.15% |
| Facility C | \$76m | Oct 11 | \$69m | 5.80% |
| Facility A1 | \$38m | April 12 | \$38m | 7.65% |
| Facility B | \$120m | Oct 12 | \$116m | 7.40% |
| Total Facilities | \$280m | | \$229m | 7.00% |
| Interest Cover ² | >3.0x | | 4.7x | |
| Leverage Ratio ³ | <3.0x | | 2.5x | |

1. GBP and USD denominated borrowings converted at 31 December 2009 exchange rate
2. Interest cover = LTM EBITA before non-cash options expense and non-recurring losses / net interest
3. Leverage ratio = financial indebtedness / LTM EBITDA before non-cash options expense and non-recurring losses

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