29.11.2011

PhotonGroup.

2011 Annual General Meeting
CEO's Address

Fellow shareholders:

I am pleased to have the opportunity to update you on our progress.

Over the past year this company has been transformed. A year ago Photon was an over-leveraged holding company for an eclectic range of uneven outfits. Today, this is a strategically focused, debt-free business built around a core of high quality business units.

As we have said consistently, our focus over the past year has been on three key areas:

- Reduction of debt;
- Restructuring our operating portfolio; and
- Improving the management and operations of the company.

I am pleased to say we have made far more progress on each of these goals than we anticipated this time last year.

First, we have eliminated the company's debt entirely: At July 1 2010, we had unconditional cash liabilities of $450 million. We undertook to bring that debt steadily under control without damaging the operations of the company or engaging in a fire sale. I am delighted to tell you that following completion of the field marketing sale we will have a positive net cash balance sufficient to cover our entire unconditional cash earn-out liabilities.

Obviously removing the debt that has hung over the company dramatically changes the game. This frees the company from the strategic straightjacket imposed by its previous excessive leverage.

This reduction of debt was accomplished in a number of ways – including the recapitalisation, asset sales, and operating cash flow. In particular, we sold 13 non-core businesses for total consideration of $233 million, at an average of 7.5 times EBITDA. Despite the constant drumbeat of advice that urged us to conduct what could only have been a fire sale to shore up the balance sheet, we refused to consider it. We stuck to a careful, patient and disciplined process. This approach paid off, with the asset sales generating an attractive return, while improving the coherence of the remaining businesses and demonstrating their value.

Second, we have restructured the portfolio: At the start of the year, Photon consisted of 45 individual operating units, managed in five divisions, spread across 13 countries. These operating units were of uneven quality. Many were not sustainable businesses. Moreover, there was virtually nothing tying them together other than all being mortgaged to the same debt load.

During the year we entirely restructured this portfolio. We have worked to reshape this into a small set of complimentary businesses in some of the most attractive market segments. We improved the quality of the portfolio by selling, closing or merging businesses as appropriate.

We substantially exited our search arbitrage and related businesses through sales and closures. In all, Photon spent $130 million acquiring these eclectic outfits over a number of years. We have now drawn a line under this folly, with the entire purchase amount written off.

The result is that we have reduced this uneven portfolio from 45 business units to 14. In doing this, we have removed the substantial fragilities in the portfolio and made the company easier to manage, more transparent, and more sustainable.

Before the restructure, the majority of our 45 units had less than $3 million in earnings and some had little prospect of ongoing viability, or required significant uneconomic investment.

Today, more than 85 per cent of Photon's earnings come from businesses with EBITDA over $3 million. We continue to work towards scaling up our businesses to increase their performance and the quality and sustainability of earnings.

Third, we have improved management and operations: We made a number of key changes across the company to strengthen management. In many cases, new leadership teams are in the early days of operational improvement. In addition, we re-tooled incentive arrangements at many of the business units to ensure that interests are aligned in the short term and the long term. This has been an extensive, time-consuming effort, but an absolutely critical step in a people based business.

Future Strategy

During the past year, an enormous effort has gone into fixing the balance sheet and restructuring the company to improve the quality of the portfolio and make it more transparent, and easier to manage and understand.

This clean up, of course, came at considerable expense. This includes having our corporate team focused substantially on restructuring -- a diversion of resources away from our core businesses, as well as many millions of dollars paid to lenders and advisers, mainly in the recapitalisation.

These are all part of the cost of getting out of a major financial crisis and are disproportionately high in a small company.

We announced last month that we would undertake a review of Photon's operating structure and overhead. Our team expects to implement significant cost reductions during the second half of fiscal 2012.

Already, we've given up the harbour views that the company has enjoyed for many years, and we are making other reductions to re-align the company around its new size, strategy and outlook.

Photon's next chapter involves focusing on our core operating businesses and taking appropriate opportunities to organically expand them. This will involve a continued focus on expanding our digital capabilities, as well as expanding in small ways into new markets.

We are in the process of aligning the appropriate people and resources around our strategic goals. We will be in a position to say more about this no later than our half-year results in February.

I would like to thank the board for its support over the past year, and particularly Brian Bickmore for his ongoing efforts on behalf of shareholders. Photon is fortunate to have many passionate, committed, talented people, and it is a pleasure to work with such a team. Thank you all for your support during the year.

Contact

Andrew Butcher
Butcher & Co
+61 400 841 088